

# Application and Verification Guide

Introduction .....	1
Chapter 1: The Application Process: FAFSA to ISIR .....	3
TYPES OF APPLICATIONS .....	3
<i>Paper FAFSA, FAFSA on the Web, FAA Access to CPS Online, The PIN, Renewal FAFSA</i>	
PROCESSING THE FAFSA .....	5
OUTPUT DOCUMENTS: THE SAR AND ISIR .....	6
DEADLINES .....	7
Chapter 2: Filling Out the FAFSA .....	9
STEP ONE: GENERAL STUDENT INFORMATION .....	9
<i>Questions 1–31 (including drug conviction question)</i>	
STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS .....	12
<i>Questions 32–47 (and questions 70–83 for parents), Worksheets A–C, Qualified tuition programs (QTPs) or 529 plans, Reporting “take-back” mortgages, Reporting trust funds, Ownership of an asset</i>	
STEP THREE: DEPENDENCY STATUS .....	22
<i>Questions 49–54, Dependency overrides, Who counts as a parent, Other sources of support for children and other household members, Veteran match</i>	
STEP FOUR: PARENTS’ INFORMATION (DEPENDENT STUDENTS ONLY) .....	28
<i>Questions 55–72 (see Step Two for discussion of questions 70–83), Reporting information in cases of death, separation, divorce, and remarriage</i>	
STEP FIVE: HOUSEHOLD SIZE AND NUMBER IN COLLEGE (INDEPENDENT STUDENTS ONLY) .....	30
<i>Questions 84–85</i>	
STEP SIX: SCHOOL INFORMATION .....	31
<i>Questions 86–97</i>	
STEP SEVEN: SIGNATURE REQUIREMENTS .....	32
<i>Questions 99–103, Substitutes for a parent’s signature, Signatures for electronic applications</i>	



Chapter 3: Expected Family Contribution (EFC) .....	35
GENERAL INFORMATION .....	35
SIMPLIFIED FORMULA .....	35
AUTOMATIC ZERO EFC .....	36
ALTERNATE EFCs .....	36
FORMULA A — DEPENDENT STUDENTS .....	37
<i>Parents' contribution, Student's contribution from income, Student's contribution from assets, Alternative EFCs for other than nine-month enrollment</i>	
FORMULA B — INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE .....	41
<i>Contribution from available income, Contribution from assets, Alternate EFCs for other than nine-month enrollment</i>	
FORMULA C — INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE .....	43
<i>Available income, Contribution from assets, Calculation of student's EFC, Alternate EFCs for other than nine-month enrollment</i>	
EFC WORKSHEETS .....	47
<i>Formula A, Formula B, Formula C</i>	
Chapter 4: Verification .....	75
REQUIRED POLICIES .....	75
APPLICATIONS TO BE VERIFIED .....	76
<i>30% Verification option, Selection after disbursement, Verification exclusions</i>	
REQUIRED VERIFICATION ITEMS .....	79
<i>General documentation requirements and the verification worksheets, Household size, Number enrolled in college, Adjusted gross income (AGI) and U.S. income tax paid, Tax documents: special situations and alternatives, Untaxed income and benefits, Using a joint return to figure individual AGI and taxes paid</i>	
COMPLETING THE PROCESS .....	88
<i>Interim disbursements, After documentation is complete, Verification tolerance, Late disbursements and failure to submit documentation, Verification status codes, Verification worksheets (dependent and independent)</i>	



Chapter 5: Corrections, Updates, and Adjustments .....	95
CORRECTING ERRORS .....	95
<i>Options if error doesn't affect eligibility, Options if correction increases eligibility, Options if correction decreases eligibility</i>	
UPDATING .....	96
<i>Dependency status, Household size and number in college, Effect on previous disbursements</i>	
HOW TO SUBMIT CORRECTIONS AND UPDATES .....	98
<i>Using "Corrections on the Web," Submitting changes via FAA Access to CPS Online, Using the Student Aid Report (SAR) to make corrections, Adding schools and changing a student's address</i>	
PROFESSIONAL JUDGMENT .....	99
CONFLICTING INFORMATION .....	101
<i>Subsequent ISIRs, Discrepant tax data, Resolution of conflicting information</i>	
REFERRAL OF FRAUD CASES .....	102
<i>Office of Inspector General address and phone numbers</i>	







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# Introduction



*This publication is intended for financial aid administrators and counselors who help students begin the student aid process—filing the Free Application for Federal Student Aid (FAFSA), verifying information, and making corrections and other changes to the information reported on the FAFSA.*

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Throughout the Handbook we use “college,” “school,” and “institution” interchangeably unless we mean something specific. “Parents” in this volume refers to the parents of dependent students, and “you” refers to the primary audience of the Handbook: financial aid administrators at colleges. “We” indicates the United States Department of Education.

We appreciate any comments that you have regarding the Application/Verification Guide as well as all the volumes of the Federal Student Aid Handbook. We make many minor revisions because of questions and feedback from the financial aid community, so please contact us at [fsaschoolspubs@ed.gov](mailto:fsaschoolspubs@ed.gov) to let us know how to improve the Handbook so that it is always clear and authoritative.

## CHANGES FOR 2005-2006

Because most returning students will now receive a renewal reminder rather than a paper renewal FAFSA, the margin note on p. 5 was changed to discuss the limited circumstances for which one can receive a paper renewal FAFSA.

We’ve become aware that some schools have required students to fill out supplemental forms (in addition to the FAFSA) in order to apply for federal student aid. This is not permitted, and we have added text to that effect on p. 3.

On p. 4 we inserted the caution that students should not give their PIN to anyone, nor should anyone ask for it, even if they plan to assist the student with receiving aid. A Dear Colleague Letter (GEN-04-10, September 2004) explains this further.

We often get questions about whether same-sex unions count as marriages on the FAFSA. They do not; see the pertinent margin note on p. 10.



We also added a margin note on p. 12 describing how to determine the income earned from work when values on lines 12 or 18 of the 1040 form are negative.

When a parent receives untaxed Social Security benefits on behalf of a student, the benefits would be reported on the parent's side of Worksheet A. We have noted this on p. 15.

Aid administrators have reported seeing an increase in combat pay on W-2 forms and have wondered how it should be treated on the FAFSA. See the margin note on p. 16 for the answer.

We added guidance on p. 23 under "Question 50" stating that a student who is independent due only to marriage becomes dependent for the next award year when divorced.

We clarified guidance regarding financial support for children of students. Such support from anyone other than the student's parents may be counted as support provided by the student for determining whether the child is a dependent of the student and whether the child should be counted in his household size. See the bottom of p. 26.

We removed the veteran match charts in Chapter 2 that reproduce information from the ISIR Guide because they were redundant with the text on p. 27. We added the pertinent page references for the ISIR Guide.

We clarified the instruction at the top of p. 34 to state explicitly that FAAs cannot accept a faxed or copied signature for the application. Verification signature requirements are more lenient.

Because schools can no longer pay on the secondary EFC under any circumstance, we emended the language on the top of p. 36 to show that, rather than use the secondary EFC, schools must correct and re-submit an application for which the student wrongfully met the simplified needs test.

We added a margin note on p. 102 to allay worries about the size of IRS Publication 17. While it is a long document, we have specified the page numbers to which you might need to refer when resolving cases of conflicting information.



# The Application Process: FAFSA to ISIR

*The laws governing the FSA programs require that a person apply for aid with a form provided by the Department of Education (ED) and that no fee be charged for processing it. This form is the “Free Application for Federal Student Aid” (FAFSA), and its online version is “FAFSA on the Web.”*

To be considered for federal student aid, a student must complete a FAFSA unless he is only applying for a PLUS loan. The FAFSA collects financial and other information used to calculate the expected family contribution (EFC) and to confirm a student’s eligibility through computer matches with other agencies.

Schools can’t require extra information from students to apply for federal aid—except for verification or resolving conflicting data. The FAFSA is the only form students need to fill out.

## TYPES OF APPLICATIONS

Students can fill out a paper FAFSA, or they can apply electronically using FAFSA on the Web or, with their school’s help, FAA Access to CPS Online. Students who have applied in previous years may be able to use a simplified form, the renewal FAFSA.

### **Paper FAFSA**

Many students still use the paper FAFSA, which they can order from the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). You can also order bulk quantities of the FAFSA to distribute on your campus or through outreach events. Go to [www.edpubs.org/bpos](http://www.edpubs.org/bpos) to access our online ordering system.

### **FAFSA on the Web**

Your students can use FAFSA on the Web at [www.fafsa.ed.gov](http://www.fafsa.ed.gov) to complete an application online and submit it directly to the Central Processing System (CPS). Students can also correct any of their previously submitted data except for the SSN. There is much online help, and students can also call 1-800-4-FED-AID.

### **FAA Access to CPS Online**

You can submit a student’s application data at FAA Access to CPS online ([www.fafsa.ed.gov/FOTWebApp/faa/faa.jsp](http://www.fafsa.ed.gov/FOTWebApp/faa/faa.jsp)). You can also connect to the site through EDEExpress.

### **Exception to FAFSA filing requirement**

If the only federal aid a dependent student wants to receive is a PLUS loan to her parents, she doesn’t have to complete a FAFSA, but one of her parents will need to complete a loan application and promissory note. Also, the student must still meet all the usual eligibility criteria, and the parent must meet the PLUS eligibility requirements.



**Free CPS/SAIG technical support for schools or their destination points**

1-800-330-5947  
CPSSAIG@ed.gov



### Advantages of electronic filing

We strongly recommend electronic applications over the paper FAFSA because of the following benefits of the former:

- Faster processing than paper applications
- Fewer errors and rejected applications because internal and end-of-entry data edits ensure that required fields are completed and conflicts are resolved prior to submission
- Skip logic, which helps “shorten” the form by allowing applicants to skip over questions that don’t pertain to them
- Availability of online help

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### Websites for students

**www.fafsa.ed.gov**

- ➔ FAFSA on the Web
- ➔ Corrections on the Web
- ➔ Renewal FAFSA on the Web
- ➔ Check status of application
- ➔ Online SAR

**www.pin.ed.gov**

PIN website

**www.studentaid.ed.gov**

Higher education portal for students

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### FAFSA on the Web demo

You can use the FAFSA on the Web demonstration to train financial aid staff or to show students how to use the online application. Go to **http://fafsademotest.ed.gov** and type in **eddemo** for the user name and **fafsatest** for the password.

Before submitting the data, print out the “echo document” with the signature page for the student (and parent) to sign. Alternately, you can have the student fill out and sign a paper FAFSA, but to reduce the need for paper applications, we recommend the former method. As noted on p. 34, you will need to retain either the echo document or FAFSA for your records.

### The PIN

The Personal Identification Number (PIN), along with other identifiers, gives students Internet access to their information in FSA systems. Students can get a PIN by going to the website at **www.pin.ed.gov**. Those without a PIN will automatically receive one if their application was signed, passed the data match (see the next page) with the Social Security Administration, and had a complete address. Students will receive an envelope with the number or an e-mail (if an e-mail address was given) with a secure link to their PIN online. Applicants can use the PIN to:

- ◆ electronically sign a FAFSA on the Web or access and sign a renewal FAFSA on the Web
- ◆ correct their FAFSA online using Corrections on the Web
- ◆ see their EFC and other student aid report information as soon as the FAFSA is processed
- ◆ review their financial aid history as maintained in the National Student Loan Data System (NSLDS)
- ◆ access direct loan information and tools, including online entrance and exit counseling
- ◆ sign electronic promissory notes for direct loans

Students should not give their PIN to anyone, and no school official, financial advisor, or other person should ask for it. The unauthorized use of a PIN by other than the owner may result in the deactivation of the PIN or the invalidation of signed documents, including FAFSAs and promissory notes. See Dear Colleague Letter GEN-04-10.

### Renewal FAFSA

Though returning students can use a regular FAFSA, they should be encouraged to use a renewal FAFSA instead because some data from the application the student filed the year before will already be filled in. The student can review each item, correct any that has changed, and provide new information as needed. The renewal FAFSA can be submitted on the Web (which requires a PIN) or on paper.

Beginning with 2005-2006 the only students who received a **paper renewal FAFSA** in the mail were those designated by their school and who met certain requirements (see the margin note).



These students should have received renewal FAFSAs in the mail sometime after November 15, 2004. Students who received a paper renewal FAFSA should already have a PIN and can choose to reapply using **Renewal FAFSA on the Web**.

Instead of a paper renewal FAFSA, most students were automatically sent a renewal reminder, by e-mail if the student provided an e-mail address or by regular mail if he did not. Reminders sent via regular mail will contain the student's PIN, and they will be forwarded if a student's forwarding address has been left with the post office.

## PROCESSING THE FAFSA

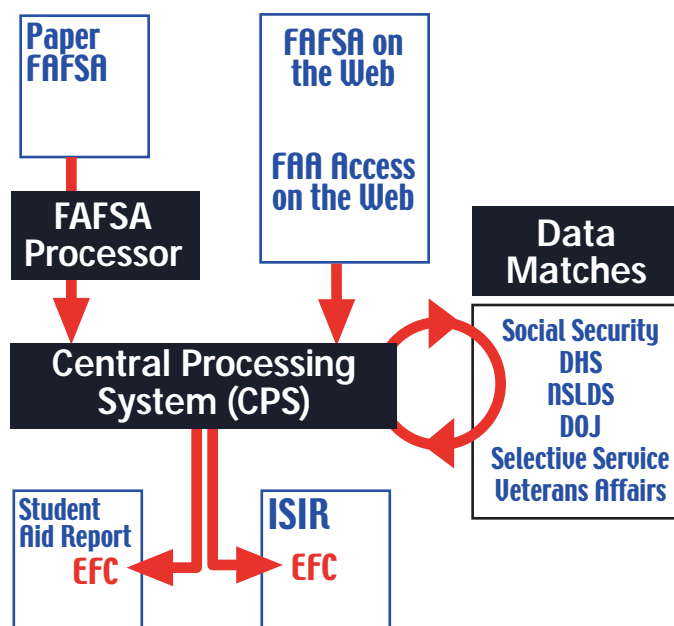
If the FAFSA was submitted on paper, it goes first to the FAFSA processor for data entry and then to the CPS. If the FAFSA was signed and submitted on the Web, it goes directly to the CPS. If a Web applicant indicated she would sign electronically later or send a paper signature page, the FAFSA goes to a signature hold file for up to 14 days. If some type of signature hasn't been received in that time, the application will be sent to the CPS but will be rejected; processing won't resume until a signature is received. See the next section on output documents.

The CPS uses the application data to calculate the EFC and to match against several databases: those of NSLDS, the Department of Justice, the Social Security Administration, and the Department of Veterans Affairs; the Department of Homeland Security's database of noncitizens and the Selective Service System registration database.

## Who gets a paper renewal FAFSA

Schools can designate certain students to receive a paper renewal application. These are students who in 2004–2005:

- Provided a deliverable mailing address on their application,
- Did not use the Web to file an application or to make a correction,
- Did not provide a valid e-mail address on their application, and
- Were not fifth-year undergraduates or graduate/professional students.



From FAFSA  
to SAR/ISIR



## 2005-2006 Application Processing System Summary of Changes Process Guide

This was posted on 11-24-04. Go to [www.ifap.ed.gov](http://www.ifap.ed.gov) and select "Electronic Announcements" and "2004."

The CPS also checks the application for possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but reported the household size as "2," the edit checks would catch the inconsistency. Even when data is inconsistent, the CPS may be able to calculate an EFC based on assumptions. For applications that your school submits through FAA Access, you can anticipate certain assumptions and correct or override information on the student's first FAFSA submission. Students who submit applications using FAFSA on the Web or Renewal FAFSA on the Web can also correct or override some of the CPS edits before submitting the application.

## OUTPUT DOCUMENTS: THE SAR AND ISIR

After processing is complete, the CPS produces output documents or records that show the information the student originally provided, the EFC, the results of the eligibility matches, and information about any inconsistencies identified through the CPS edits. If the CPS was unable to calculate an EFC, the output record will not show one.

There are two basic types of output documents: the *Institutional Student Information Record* (ISIR), which is sent electronically to the schools the student lists on the FAFSA (or adds later), and the *Student Aid Report* (SAR), which is sent to the student.

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### Reject example

Sioned is living with her boyfriend. She reports on the FAFSA that she's single, but also reports her boyfriend's income as spouse's income. Her application is rejected; she receives a reject reason code of 11 and a comment explaining that she reported contradictory information. Sioned must submit a correction to blank out the boyfriend's income.

You will receive an ISIR for the student only if she puts your school (there is space for six) on her FAFSA. If your school is not listed, you can request an ISIR for her through FAA Access if you have her data release number or DRN. The DRN appears in the bottom left corner of the first page of the SAR and at the top of the correctable pages. It's also on the ISIR in the "FAA Information Section" if your school originally entered the student's application data through FAA Access. The DRN and PIN are different: the DRN authorizes your access to the student's application information; the PIN is the student's personal code, which she should give to no one. A school may ask for the student's DRN, but it should never request the PIN.

Schools are required to receive ISIRs and to accept SARs from students, but they cannot require students to submit SARs to the school in order to receive aid. We recommend making corrections electronically, via Corrections on the Web or FAA Access; however, a school can require the student to use a SAR to make corrections. If you don't have an ISIR for a student who has provided a SAR, you **must** use the SAR to award and disburse the student financial aid. You must also make sure that your school is added to the CPS record for the student (see p. 98).

The SAR arrives in one of three ways. Students who give an e-mail address, whether on a paper (FAFSA or renewal FAFSA) or electronic application (FAA Access or FAFSA or Renewal FAFSA on the Web) will receive an e-mail with a link to an online SAR that they can access by providing their SSN, date of birth, and first two



letters of their last name. Students who don't give an e-mail address and who apply with a paper application will receive a paper SAR. Students who apply electronically and don't provide an e-mail address will receive a SAR Acknowledgement, which has fewer and less detailed comments than the SAR and which can't be used for corrections as the SAR can. If a student or parent signature is missing, students will receive a rejected paper SAR if they did not give an e-mail address or an e-mail with a link to the rejected SAR on the Web if they did give an e-mail address.

The SARs and ISIRs include comment codes and text explaining any questionable results from the matches and edits described above. For some of these there will also be a C code, which you must resolve before paying the student aid. For instance, if a student has defaulted on a federal student loan, the SAR and ISIR will note this in several places, including comments to the student and the NSLDS financial aid history page.

For other problems, the SAR and ISIR will show that the student's application has been rejected and no EFC has been calculated. The SAR will tell the student how to remove the reject by providing signatures or more information or by correcting errors. Reject codes are given in the FAA Information section, and a complete list of reject codes is in *The ISIR Guide 2005-2006* at [www.ifap.ed.gov](http://www.ifap.ed.gov).

## DEADLINES

The application processing cycle lasts 18 months. For the 2005-2006 award year, applications were accepted beginning January 1, 2005 and will be accepted until June 30, 2006.

The CPS processor must receive a student's electronic FAFSA transmission by June 30, 2006. **A paper FAFSA must be legible, and it must be mailed to the Federal Student Aid Programs address listed on the FAFSA in time for the processor to receive it by June 30, 2006. There are no exceptions to these deadlines.** An electronic application cannot be received before January 1, 2005, and if it is received after June 30, 2006, it will not be processed. A paper application received before January 1, 2005, or after June 30, 2006, will be returned unprocessed with a letter of explanation. If it is signed before and received after January 1, 2005, it will be accepted, but the student will receive a rejected SAR asking him to date and re-sign the SAR and return it for processing.

In addition to the above dates, the following are anticipated deadlines for the 2005-2006 award year:

- Corrections on a paper SAR must be received by September 15, 2006.
- Corrections through Corrections on the Web or FAA Access to CPS Online must be received and accepted by the CPS before midnight (central time) on September 15, 2006.

## Resources for aid administrators

For questions about EDconnect, EDExpress, and Renewal FAFSAs, call CPS/WAN customer service: 1-800-330-5947

For bulk orders of FAFSAs, technical systems publications, and more, visit the "Bookstore" at the FSA Schools Portal: [www.fsa4schools.ed.gov](http://www.fsa4schools.ed.gov)

## Deadline Date Notice

Every year the Department publishes in the Federal Register a deadline notice that provides all the processing deadline dates. The deadline notice for the 2004–2005 award year was published on April 13, 2005. When the official deadline notice for the 2005–2006 award year is published, it will be available on the IFAP website.



- Address and school changes through the Federal Student Aid Information Center (FSAIC) can be made through September 15, 2006.
- A school must pay or offer to pay any disbursements for a student if it receives a SAR or ISIR with an official EFC while she is enrolled and eligible, but not later than September 15, 2006.
- To give a Pell grant to a student, a school must have a valid output document (one with an EFC computed from correct data) while the student is still enrolled for the award year or in the timeframe the student qualifies for a late disbursement under 34 CFR 668.164(g)(4)(i), but no later than September 15, 2006.
- For students selected for verification (both ED-selected and school-selected), the school must have verification documents, and for Pell recipients a valid output document, no later than 120 days after the last day of enrollment or September 15, 2006, whichever is earlier. Schools may set earlier deadlines for the campus-based and loan programs.

The date the institution receives the ISIR is considered to be the date the CPS processed the ISIR transaction. This process date is listed on the first page of the SAR and ISIR.



# Filling Out the FAFSA

## CHAPTER

# 2

*The FAFSA is the first step in the financial aid process. Because it's important to complete the form correctly, this chapter discusses some of the more difficult questions that arise. While the chapter more closely follows the organization of the paper application, the guidance applies equally to FAFSA on the Web. To see how FAFSA data are used to calculate the expected family contribution, refer to chapter 3.*

The FAFSA is organized as steps, with each step consisting of a group of related questions. In addition, the FAFSA contains instructions for the form and one page of worksheets for calculating additional amounts that are entered in Steps 2 and 4.

Once the FAFSA is submitted it is considered a “snapshot” of the family’s finances that can be updated only in certain circumstances and only for certain items; see chapter 5.

This chapter provides guidance that supplements the application instructions. Students can get similar advice on filling out the FAFSA on our website for students at [www.studentaid.ed.gov](http://www.studentaid.ed.gov). Note that where parents are mentioned it refers to the parents of dependent students.

### FAFSA Steps 1–7

**Step One**—General student info

**Step Two**—Student’s financial data

**Step Three**—Dependency questions

**Step Four**—Parent financial data  
(dependent students only)

**Step Five**—Household size  
(independent students only)

**Step Six**—Schools and school codes

**Step Seven**—Signature(s)

## STEP ONE: GENERAL STUDENT INFORMATION

**Purpose:** This section identifies the student and establishes his aid eligibility based on factors such as citizenship, educational level, and Selective Service registration. (*Volume 1: Student Eligibility* explains more.) Some of the questions are included to help the school package the student’s aid award sooner and to eliminate the need for him to fill out a separate state financial aid form.

- **Questions 1–3** ask for the student’s name. The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student’s name and Social Security Number (SSN) with the Social Security Administration (SSA), the name here should match the one in the SSA’s records.
- **Questions 4–7** ask for the student’s permanent mailing address. This cannot be the school address, with one exception: an incarcerated student may use his college’s administrative address and include with the FAFSA a letter from the school indicating that he is incarcerated and is using the school’s address.

### Completing the FAFSA

Information for students about completing the FAFSA is posted on the Web at [www.studentaid.ed.gov/completefafsa](http://www.studentaid.ed.gov/completefafsa)

You may wish to add a link from pages that students use on your website to this reference information. You can also download FAFSA on the Web banner graphics to use on your website. Go to [http://www.ifap.ed.gov/fafsa/doc0013\\_bodyoftext.html](http://www.ifap.ed.gov/fafsa/doc0013_bodyoftext.html)



# STEP 1

## Questions 4–20 Student information

### The SSN and Pacific Island residents

A student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau is not required to have an SSN. Previously these students mailed their FAFSA to a separate address; now they send it to the same address as all other students. The CPS will assign an identification number to students who indicate on the application that their state of legal residence is one of the above Pacific Island groups.

For Pacific Island students who have been assigned an ID number in place of an SSN by the Department, we encourage them to use that number throughout their financial aid years.

### Same-sex marriage and the Defense of Marriage Act (DOMA)

According to the Defense of Marriage Act (1996), "...the word 'marriage' means only a legal union between one man and one woman as husband and wife, and the word 'spouse' refers only to a person of the opposite sex who is a husband or a wife." Therefore, same-sex unions are not considered marriages for federal purposes, including the FAFSA.

- **Question 8** asks for the student's SSN. With the exception noted in the margin, a student must have an SSN to apply for federal student aid (FSA). If the student submits a FAFSA without an SSN, the FAFSA will be returned to the student unprocessed. To get an SSN or to determine what the number is if the Social Security card has been lost, the student must contact the local Social Security Administration office. For more information call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778).

The student should be careful when entering his SSN; although it can be corrected after the FAFSA is processed, the number originally entered will always be used as the student's ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Question 13** asks for the student's e-mail address. If the student provides an e-mail address, he should receive an e-mail link to his online SAR data within one to three days. The Department will also use this e-mail address to correspond with the student regarding his application and PIN.
  - **Question 14** asks about U.S. citizenship and eligible noncitizenship. Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only a citizen or an eligible noncitizen is eligible for aid from the FSA programs; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.
  - **Questions 16 and 17** ask about the student's marital status "as of today"—the day the application is completed. Marital status cannot be projected or updated during the award year.
  - **Questions 18–20** ask for the student's state and date of legal residence. This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes.
- It also indicates which state agency should receive the student's FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of their financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 19 will likely meet the residency requirements of that state, while the state eligibility for a person answering "No" will depend on the date reported in question 20 and the state's requirements.
- **Question 24** asks for the student's grade level at the start of the school year. Note that grade level is not based on the number of years the student has attended college but on work completed



toward the degree/certificate. For instance, a full-time student might attain second-year grade level after one year of study, while a half-time student would take two years to reach that level.

- **Question 26** asks whether the student will have a first bachelor's degree before July 1, 2005, because eligibility for Pell grants and Federal Supplemental Educational Opportunity Grants (FSEOGs) is almost exclusively restricted to students who have not yet received bachelor's degrees. See "Pell Grants" in Chapter 6 of *Volume 1: Student Eligibility* for guidance on degrees from unaccredited and foreign schools.
- **Questions 27 and 28** ask the student to indicate what types of aid, in addition to grants, she is interested in receiving. This will help the school in packaging her award. If she isn't sure about wanting loans or work-study, she should answer "Yes" so she will be considered for those types of aid that are available; later she can decline any aid she doesn't want. If a dependent student doesn't want to take out a loan but her parents want to get a PLUS loan, this question should be answered "Yes."
- **Questions 29 and 30** ask for the highest level of school completed by the student's father and mother. Some state agencies use this information to award grants and scholarships. "Father" and "mother" are defined here as the student's birth or adoptive parents but not stepparents, guardians, or foster parents. Note that this definition is unique to these questions—all others use the definition on page 7 of the FAFSA.
- **Question 31** asks whether the student has been convicted of possessing or selling illegal drugs. Students who have been convicted should still complete and submit the FAFSA because they may be eligible for federal aid, and even if they aren't, they may be eligible for state or institutional aid (many states and schools use the data supplied by the FAFSA to award their aid).

Students who answer "Yes" to question 31 and fill out a paper original FAFSA will receive a worksheet with their SAR to determine whether the federal or state conviction affects their eligibility for federal student aid. If the date the student regains eligibility falls before July 1, 2005, the worksheet will instruct the student to change the response to a "1," indicating full eligibility for the award year. If the date falls between July 1, 2005, and June 30, 2006, the student will not be eligible for part of the award year and will need to change the response to a "2."

If the eligibility date falls after June 30, 2006, then the student's response will remain a "3." The student will not be eligible for federal aid during the award year unless he completes a qualified drug rehabilitation program, though he might be eligible for state or school aid. See *Volume 1: Student Eligibility* for more information on drug convictions and eligibility.

# STEP 1

## Questions 24–31 Student information

### Undergraduate student definition

A student who is enrolled in a program of study that usually does not exceed four (and can be up to five) academic years in length and that is designed to lead to a degree or certificate at or below the baccalaureate level.

34 CFR 674.2, 675.2, 676.2, 690.2, and 682.200(b)

### Graduate student definition and mixed-degree programs

A graduate student is one who: is enrolled in a program above the bachelor's level or a program leading to a first professional degree; has completed at least three years of full-time study, either before entrance into the program or as part of it; and is not receiving aid as an undergraduate for the same period of enrollment.

34 CFR 674.2, 675.2, and 682.200(b).

Some schools offer mixed-degree programs. For example, a student might earn a bachelor's degree and a master's degree in five years of coursework. The school determines at what point after three years' worth of full-time study the student ceases to be an undergraduate and becomes a graduate student, which of course affects his dependency status and loan limits, among other things. This determination must be consistent for all students in a program.



# STEP 1

## Question 31 Drug convictions

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### Income and assets citations

HEA Sec. 480(a), (b), (f), (g)

Students applying with a paper Renewal FAFSA who marked on the worksheet a “3” or left a blank in the previous year will automatically receive a worksheet for the current year, and students using one of the electronic applications will be able to determine the correct response (1, 2, or 3) to the question before submitting their application.

A student who leaves question 31 blank cannot be paid FSA funds until he responds by submitting a corrected SAR or ISIR.

### STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

**Purpose:** Questions 32–47 ask for the student’s (and spouse’s) income and assets. Step Four collects similar information about parents’ income and assets, so the following discussion pertains to parents as well as the student and spouse. Income, assets, and living allowances are used to calculate the student’s portion of the EFC.

If the student or the student’s parent wasn’t married in 2004 but is married at the time the application is completed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student’s parent was married in 2004 but is now separated or divorced, or the spouse has died, the student or parent doesn’t provide income and asset information for his spouse, even though that information may be on the 2004 tax forms.

The FAFSA asks for income and taxes paid for the “base year,” which for 2005–2006 applicants is the 2004 tax year, so the questions refer to lines on 2004 IRS tax forms. Data from the completed tax year is a good predictor of the family’s financial situation for the current year. If 2004 tax data is not available yet, best estimates can be used on the application, though the student may need to correct them later if they differ from the tax return.

The FAFSA also collects information for certain investments and assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is completed**.

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### Income earned from work and the IRS 1040 form

The FAFSA instructs the applicant to sum lines 7, 12, and 18 of the 1040 form as an option for determining the income earned from work, but when the values of lines 12 or 18 are negative, this will reduce the total and can wrongly affect the Social Security allowance. If values from lines 12 or 18 are negative, treat them as zero when determining the income earned from work.

- **Questions 32–34 (70–72 for parents)** ask the student if she has completed a 2004 tax return yet, which return was or will be filed, and whether the student was eligible to file a 1040A or 1040EZ. The CPS uses this information in part to identify if the student is eligible for the simplified needs test or the auto zero EFC (see margin note on p. 19).
- **INCOME: Questions 35–39 (73–77 for parents)** ask the student and spouse for adjusted gross income (AGI) and other tax information. Dependent students report these items for their parents. Each question gives the line reference to the 2004 IRS tax forms, so it will be easier for students to complete these questions if they’ve already completed their tax return. The student can also estimate answers, but if the estimated



information is wrong, she might have to correct it when the tax return is filed. The worksheet on the following page can help students estimate their tax information.

Students or parents who filed a joint return but are now divorced, separated, or widowed won't be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them. For more on this calculation, see "Using a Joint Return to Figure Individual AGI and Taxes Paid" in chapter 4.

If the student, spouse, or parents were not required by IRS rules to file a tax return, the student should still report any income earned from work in lines 38–39 (student and spouse) and/or lines 76–77 (parents). The W-2 form and other records should be used to determine these amounts. Income earned from work is normally used to calculate an allowance for the additional costs incurred for working families; however, if no tax return was filed, it will also be used in place of AGI. It is used as well to calculate the offset for the Social Security tax (FICA).

For a fiscal year tax return, as opposed to one for the calendar year, the applicant should report information from the fiscal year return that includes the greater number of months in 2004.

If the student or parents filed a tax return using something other than an IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the non-IRS form that correspond most closely to those on the IRS forms.

## Worksheets A, B, and C

Untaxed income items are grouped on the worksheets on the back of the FAFSA. The applicant doesn't submit the worksheets but reports their totals in questions 40–42 (student/spouse) and 78–80 (parents). The totals from Worksheets A and B are added to income while the total from Worksheet C is subtracted.

- **Worksheet A (questions 40 and 78)** asks for several types of untaxed income and benefits that are typically associated with the neediest households; this worksheet helps aid offices to identify applicants who might have high financial need.

Two of the items to be reported on this worksheet appear on the tax form, even though they are not taxed: the **earned income credit (EIC)** and the **additional child tax credit**. If parents file a joint tax return and qualify for the EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived longer in the last 12 months would determine his portion of the EIC by using the tax table or

# STEP 2

## Questions 35–39 and 73–77 Income

### Fiscal year return example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2003 includes eight months in 2004. The return they'll file for the fiscal year starting in September 2004 only includes four months of 2004 and won't be completed until after August 2005. Therefore, they should use the information from the tax return for the fiscal year that started in September 2003.

### Other tax forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the IRS line items for verification.

### The EIC and tax filing

Students and parents of dependent students who are eligible for the EIC are encouraged to file a tax return and claim the credit.



## AGI Worksheet for those who have not completed a tax return

*Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.*

*For question 35  
Student/Spouse*

*For question 73  
Parent(s)*

Wages, salaries, tips, etc.	\$ _____ .00	\$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
<b>Add</b> all of the numbers in the column	= _____ .00	= _____ .00

**Subtract** IRS-allowable adjustments to income (payments to IRA and Keogh Plans, one half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)

— \_\_\_\_\_ .00    — \_\_\_\_\_ .00

**TOTAL — Write this amount in question 35 or 73:**

\$ \_\_\_\_\_ .00

\$ \_\_\_\_\_ .00

### Zero income

Occasionally an applicant will report no income for the base year. This can occur when the family has tax write-offs that produce a negative AGI or when the applicant neglected to report untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification. If the CPS does not select the student for verification, you may still choose to ask her for further information about her means of support during the base year. Also, you may use professional judgment (PJ) to adjust the income line items to reflect income the family receives that doesn't appear on the tax return.

Any cash support on behalf of the student, other than support from a parent for a dependent student, counts as untaxed income and must be reported on Worksheet B. In-kind help (see pp. 17-18) from a friend or relative—for instance, using a room at an aunt's house and eating meals with her family—is not considered untaxed income, but you may use PJ to account for the value of that in-kind support (by adjusting the room and board component of the cost of attendance, for example).



proportional distribution calculations. See “Using a joint return to figure individual AGI and taxes paid” in chapter 4.

**Some income that is not reported on the tax return should also be reported on Worksheet A:**

- ➔ **Welfare benefits, including Temporary Assistance for Needy Families (TANF).** TANF is the name for the state-administered plans that replaced Aid to Families with Dependent Children (AFDC or ADC). Rent subsidies for low-income housing, though a form of welfare, are **not** counted on the FAFSA.
- ➔ **Untaxed Social Security benefits.** Worksheet A asks for “Social Security benefits received that were not taxed.” Tax filers can determine this amount from the IRS form 1040 by subtracting the taxable portion of Social Security benefits from the total amount. When a parent receives benefits on behalf of the student, they are counted in the parent’s column.
- **Worksheet B (questions 41 and 79)** collects information about other untaxed income and benefits. Some forms of income are reported on the tax form even though they aren’t taxed. Again, a student who hasn’t filed will have to estimate these amounts, and students or parents may need to separate information from a joint return.

**Worksheet B items that are answered from tax forms are:**

- ➔ **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn’t be reported as an untaxed benefit.
- ➔ **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts appear on the tax return.
- ➔ **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on line 8b on both the 1040 and 1040A forms.
- ➔ **Foreign income exclusion.** If a U.S. tax filer earns foreign income, part of it might not be taxable, so the FAFSA instructs the applicant to include the untaxed amount (from line 43 of Form 2555 or line 18 of Form 2555EZ) on Worksheet B.
- ➔ **Untaxed IRA distributions and pension payments.** A tax filer determines how much of his IRA distribution or pension

## STEP 2

### Worksheet A Untaxed income

#### Box 14 items on the W-2

Schools are not required to review income listed in box 14 of the IRS’s W-2 form. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income or on Worksheet B for instance); also, employers could include in box 14 certain nonelective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

There are exceptions though. For example, clergy parsonage allowances are often reported in box 14, though as stated above, employers aren’t obliged to do that. Whether such allowances appear in box 14 or not, they should be included in the appropriate space on Worksheet B of the FAFSA.

If you are aware that a box 14 item belongs on Worksheet B (i.e., if it represents discretionary income), you should include it.



# STEP 2

## Worksheet B Untaxed income

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### Combat pay

For students or parents whose W-2 forms show combat pay, any untaxed portion should appear on Worksheet B, and the full amount must be counted as income earned from work.

For those who do not file a tax return, their combat pay should only appear as income earned from work—none of it should be on Worksheet B. This is because income earned from work is used in place of AGI when the student is not a tax filer, so putting combat pay on Worksheet B would yield a double counting of funds.

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### Cash support (reported on worksheet B)

Support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, and college costs paid for on the student's behalf.

payment is taxable when he completes his tax return. The applicant needs to report the untaxed portion on the FAFSA, and Worksheet B explains how to determine that amount using the tax return.

➔ **Credit for Federal tax on special fuels—nonfarmers only.**

Certain tax filers can claim a credit for excise taxes they paid on some kinds of fuels. IRS Form 4136 is used to claim this credit, and Worksheet B directs the applicant to copy information from that form.

**Worksheet B income not reported on the tax return:**

➔ **Child support received for all children.**

➔ **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these allowances as compensation for their jobs. Money received to pay for rent should also be reported, as should the free use of a house or apartment (the rent or market value of a comparable house or apartment can be used). Similarly, if the student received free room or board in 2004 for a job that was not awarded as student financial aid (including resident advisor positions that provide free room and board as part of the student's non-need-based employment compensation), she must report the value of the room and board as untaxed income. Do not, however, include rent subsidies for low-income housing.

➔ **Veterans' noneducation benefits.** This includes disability, the death pension, Dependency & Indemnity Compensation (DIC), and VA educational work-study allowances.

➔ **Any other untaxed income not reported elsewhere.** This can include disability, worker's compensation, combat pay, interest income on education IRAs, untaxed portions of railroad retirement benefits, black lung benefits, refugee assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.

➔ **Cash support.** The student reports any cash support he has received, except support from his parents if he is dependent. The student also must report any money paid to someone else on his behalf. For example, if a friend or relative gives him grocery money or pays his electric bill or part of his rent, he must report the amount as untaxed income. If he is living with a friend who pays the rent and the student's name is the only one on the lease, the rent paid counts as cash support. Because the student's name is on the lease, he is responsible for the payments that his friend is making on his behalf. Note that the column for parents' information is marked out for this line item—only the student reports this information.



**Tips on reporting benefits:**

The applicant reports the actual amount of benefits received for the year in question, even if the amount is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Benefits the head of household receives on behalf of anyone included in his FAFSA household size are income to him. However, if the person (e.g., a grandmother) receives benefits in her name, they don't count as income to the head of household. Such a person is not included in the household size if the benefits in her name total more than half of her support.

**Income and benefits NOT to be included on Worksheet B:**

- ➔ **Student aid** is accounted for in packaging aid (see *Volume 3: Calculating Awards and Packaging*) and must not count as income or a benefit in the calculation of the EFC. Student aid includes tuition benefits a parent receives for a dependent (for example, from the parent's employer). Note that student aid that was included in the AGI is reported separately as an exclusion on Worksheet C so that it can be subtracted from income.
- ➔ **Payments and services received from states for foster care or adoption assistance**, under Part A or Part E of Title IV of the Social Security Act.
- ➔ **Per capita payments to Native Americans.** Per capita payments received in 2004 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless they exceed \$2,000. Any amount over that is reported as untaxed income.
- ➔ **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.
- ➔ **Flexible spending arrangements.** These are employee benefit programs, sometimes called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.
- ➔ **In-kind support.** In-kind support is other than money, such as free food or housing. If friends or relatives give the student food or allow the student to live with them rent-free, that support isn't included as untaxed income, though you may use professional judgment (e.g., by reducing the cost of attendance or increasing income) with students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must

# STEP 2

## Worksheet B Untaxed income

**Dependent benefits example**

Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel, his adoptive parent, on his behalf. Laurel has to report these benefits as her untaxed income when she completes her FAFSA, even though the benefits are for Paul.

Stanislaw's uncle Yvor lives with him and receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and because he expects to continue to provide more than half support during the award year, he includes Yvor as a dependent in his household size. However, starting the July after the current award year, Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of his uncle's support and therefore won't be able to include Yvor in his household size after this award year.



# STEP 2

## Worksheet C Excluded income

### Examples of in-kind income (not reported)

- Food Stamp Program
- Women, Infants, and Children Program (WIC)
- Food Distribution Program
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for Children
- Daycare provided by the Social Services Block Grant Programs (if the recipient receives **reimbursement** for childcare expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover Pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

### Child support payments example

Steven and his wife each have a child from a previous relationship who doesn't live with them and for whom they pay child support. Because Steven provides over half of his daughter's support through his payments, he counts her in his household size. Therefore, he doesn't report the amount of child support he pays in Worksheet C on his FAFSA. Steven's wife isn't providing over half of her son's support, so he isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays in Worksheet C.

be reported. If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash support or in-kind support. The basic rule is: if someone pays a cost that the student would otherwise pay, the amount counts as cash support. See examples in the margin.

- **Worksheet C (questions 42 and 80)** collects information on items that are included in taxable income on the tax return but are excluded from income when calculating the EFC. The applicant doesn't subtract these from the AGI reported on the form but lists them separately on Worksheet C. The total from the worksheet is then reported on the FAFSA. The CPS subtracts that total from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

### Worksheet C items that can be found on tax forms are:

- ➔ **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the application refers to the pertinent lines on the tax return.
  - ➔ **Taxable earnings from need-based work programs.** These are earnings from any need-based work program including FWS and need-based employment portions of fellowships or assistantships. The student might have received W-2s for these earnings. Otherwise, she will need to use any other records she received showing how much she earned.
  - ➔ **Student grant and scholarship aid.** A student reports on Worksheet C only the amount of grants and scholarships received that is included in taxable income. This includes grant and scholarship (not employment) portions of fellowships and assistantships. Be sure to include any AmeriCorps benefits (awards, living allowances, and interest accrual payments) except those for health care or child care. For grant and scholarship aid that is part of the taxable income, the tax filer usually writes the amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student can copy that amount from the tax form.
- Not from tax forms, but to be reported in Worksheet C:**
- ➔ **Child support payments.** Any child support payments made during 2004 because of divorce, separation, or legal requirement by the student, spouse, or parent whose income is reported on the FAFSA should be reported on Worksheet C. However, don't include child support paid for a child included in the household size reported on the FAFSA.



- **ASSETS: Questions 43–45 (student and spouse) and 81–83 (parents).** An asset is property that is owned by the family and has an exchange value. A student or parent does not report as assets possessions such as a car, a stereo, clothes, or furniture.

The FAFSA collects current (as of the day of signing the FAFSA) data about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; some examples are college savings plans, Coverdell savings accounts, real estate, trust funds, mutual funds, money-market funds, stocks, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

A family's **principal place of residence** is not reported as an asset, even if it is part of a family business. Neither is a family farm reported as an asset—only investment farms are (see the note in the margin).

The FAFSA asks for the **net worth** of investments, which is their total current market value minus their associated debts. If their net worth is negative, the student reports a zero.

Similarly for **businesses and investment farms**, the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or farm was used as collateral.

#### **Excluded assets—not reported on the FAFSA:**

- ➔ **Prepaid tuition plans.** As discussed on page 20, these plans allow units of tuition to be bought before the student attends college. Distributions from a prepaid tuition plan are applied to the beneficiary's higher education expenses and reduce her cost of attendance unless the expenses covered by the distribution must be part of the COA for accounting purposes. In those cases the amount of the distribution is counted as a resource and estimated financial assistance. For the FAFSA, the investment value of prepaid tuition plans is not reported as an asset of either the holder or the beneficiary.
- ➔ **Pensions and whole life insurance.** Pensions aren't counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, the income must be reported. The cash value or built-up equity of a life insurance policy (often referred to as a whole-life policy) isn't reported as an asset.

# STEP 2

## Questions 43–45 and 81–83 Assets

### **Simplified needs test**

The law provides a "simplified EFC" calculation for a student who meets certain income and tax-filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude family assets from the EFC calculation. However, some states and schools require this information for their own aid programs.

### **Family farm**

A farm (including equipment, livestock, etc.) isn't reported as an investment on the FAFSA if:

- it is the principal place of residence for the applicant and the applicant's family, and
- the applicant (or parents of a dependent applicant) materially participated in the farming operation

### **Rental properties**

At times a student or parent will claim that rental properties are a business. Generally, such properties must instead be reported as real estate. To be reported as a business, a rental property would have to be part of a formally recognized business. Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.



# STEP 2

## Qualified tuition programs

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### Education savings accounts

The value of Coverdell education savings accounts (which are different from 529 savings plans) should be reported on the FAFSA as an asset of the account owner.

## Qualified tuition programs (QTPs) or 529 plans

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. Because these plans are covered in section 529 of the tax code, they are also called section 529 plans. The IRS mentions two types of QTPs that are commonly called prepaid tuition plans and college savings plans. States may offer both plan types, but colleges may only sponsor prepaid tuition plans.

*Prepaid tuition plans* allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn't change even though tuition will likely increase before the beneficiary gets to use the tuition credits. The value of a prepaid tuition plan is not counted as an asset; rather, distributions are treated as a resource or a reduction in the COA; see "Excluded assets" on p. 19. The IRS does not tax distributions from plans used for higher education expenses.

*College savings plans* allow a benefactor to deposit money into an account that will be used for the beneficiary's college expenses. The buyer does not prepurchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a savings account. The value of a college savings plan should be treated as an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time) and will be reported on the FAFSA if the owner's assets are reported. Distributions from college savings plans are not considered taxable income, so they will not appear in the next year's AGI. They also should not be treated as untaxed income or as resources.

## Reporting "take-back" mortgages

In a "take-back" mortgage, the seller takes back a portion of the mortgage from the buyer and arranges for the buyer to repay that portion of the mortgage to the seller. For IRS purposes, the seller must report the interest portion of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if an amount is reported on this line of the tax return, the family probably has an asset that should be reported on the FAFSA. The value of the take-back mortgage is the value that the student should report. There would be no debt reported against this asset. For instance, if the family sold its house for \$60,000 and had a take-back mortgage of \$20,000, the family should report \$20,000 as the net worth of the investment. This amount will decrease each year, depending on how much of the principal the buyer paid back that year. This concept would also apply to other forms of seller financing of the sale of a home or other property.



## Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application, generally even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on its use, then the student should report its present value as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

How the trust must be reported depends on whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of a divorce or separation where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes unless the terms of the trust specify some other method of division.

### Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. If the interest accumulates and is not paid out, the recipient must report an asset value for the interest she will receive. The trust officer can usually calculate the value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay for the interest income.

### Principal only

The person who will receive only the trust principal must report as an asset the present value of his right to that principal. For example, if a \$10,000 principal reverts to a dependent student's parents when the trust ends in 10 years and the student is receiving the interest, the student would report the interest he received and report as a parental asset the present value of the parents' rights to the principal. The present value of the principal can be calculated by the trust officer; it's the amount that a third person would pay for the right to receive the principal 10 years from now—basically, the amount that one would have to deposit now to receive \$10,000 in 10 years, including the accumulated interest.

### Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until it ends, the beneficiary should report as an asset the present value of the interest and principal that she is expected to receive when the trust ends.

## Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset:

### Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

### Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

### Lien against asset

If there's a lien or imminent foreclosure against the asset, the asset would still be reported until the party holding the lien or making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.



# STEP 3

## Questions 48–54 Dependency status

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### Criteria for independence

For the 2005–2006 year a student is independent if he meets any of the following criteria from HEA Sec. 480(d), i.e., if he:

- was born before January 1, 1982
- is a graduate or professional student
- is married as of the date he applies
- is an orphan or is or was until 18 a ward/dependent of the court
- is a veteran of the U.S. armed forces
- has dependents other than a spouse

➔ **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 United States Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 United States Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 United States Code 1721, et seq.).

- **Questions 46 and 47** ask about the student's veterans education benefits and for how many months they will be received. If students receive veterans education benefits, they must report the amount of monthly benefits they expect to receive during the school year (from July 1, 2005 through June 30, 2006). Benefits include a range of assistance from the U.S. Department of Veterans Affairs (VA), such as the Montgomery GI Bill benefits. Veterans education benefits are not used in the EFC calculation; instead, they are counted as a resource or estimated financial assistance when packaging campus-based aid or Stafford/PLUS loans. (See *Volume 3: Calculating Awards and Packaging* for exceptions and further details on packaging FSA funds with VA educational benefits.)

### STEP THREE: DEPENDENCY STATUS

**Purpose:** Over the years most institutional financial aid policies have been based on the premise that the family is the first source of the student's support. The law governing the FSA programs has followed the same principle, and it provides several criteria that decide if the student is considered independent of her parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from her parents does not affect her dependency status.

If the student is considered a dependent of his parents, information on the income and assets of the parents must be included on the FAFSA. The CPS will calculate a parental contribution and add it to the student's contribution to derive an EFC.

In unusual cases, an aid administrator can determine that a student who doesn't meet any of the independence criteria should still be treated as an independent student. (See "Dependency overrides" later in this section.)

- **Question 49 (graduate or professional study).** The FAFSA asks the student if she will be working on a master's, doctorate, or graduate certificate program in the school year. A student who answers "Yes" to this question is a graduate or professional student and is independent for purposes of Title IV aid.

Graduate and professional students aren't eligible for Pell grants, so a student who incorrectly answers "Yes" to this question must submit a correction before he can get a Pell grant.



# STEP 3

## Questions 48–54 Dependency status

Students should fill out the FAFSA based on their grade level for the award year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

- **Question 50 (married).** This question must be answered according to the student's marital status at the time the FAFSA is filled out. If the student is engaged to be married, she must answer as unmarried unless she waits until after the marriage to complete the FAFSA. If she is married and planning to divorce, she must answer as married. Note that a student **cannot** update FAFSA information for changes in marital status after the application is filed.

If the student has a relationship that meets the criteria for common-law marriage in his state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status. A student who was independent only because he was married becomes dependent for the next award year if he divorces and cannot answer yes to any of the dependency questions.

- **Questions 51–52 (children and legal dependents).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who will receive more than half their support from the student and other persons (except a spouse) who will both live with and receive more than half their support from the student for the coming award year. The same criteria apply to household size.

- **Question 53 (orphan or ward of the court).** The student is an **orphan** if both parents are dead and the student doesn't have an adoptive parent. Such a student is considered an orphan even if she has a legal guardian.

A student qualifies as a **ward of the court** if the court has assumed custody of her. In some states the court may impose its authority over a juvenile who remains in the legal custody of her parents; such a student is not a ward of the court. Also, neither emancipation (when a child is released from control of a parent or a guardian) nor incarceration of a student qualify her as a ward of the court.

- **Question 54 (veteran of the U.S. Armed Forces).** For FSA eligibility, veterans are those who have been in active service (which includes basic training) in the U.S. Army, Navy, Air Force, Marines, or Coast Guard and were released under a condition other than "dishonorable." There is no minimum amount of

### Independent student with parental support example

Doug is a graduate student, so he's independent even though he still lives with his parents and has no income of his own. Although the FAA at his school can't make him a dependent student, she decides to use professional judgment to add an amount to his untaxed income to account for the in-kind support his parents provide.

### Legal dependent examples

Laurel is going to college and is her cousin Paul's legal guardian. Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul's support and count as income to Laurel. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the award year, Laurel answers "Yes" to the legal dependent question. If Paul didn't live with Laurel, she would have to answer "No" to the question.

Alan pays \$4,000 to support his girlfriend, Cathy, who lives with him. She has earned income of \$3,000, and she receives \$200 a month (\$2,400 a year) from her parents. She uses all of this for her support. Allan cannot consider Cathy a dependent since the \$4,000 he provides is not more than half of her total support of \$9,400.



# STEP 3

## Dependency status and overrides

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### Early exit cadets

Students who attend a military academy or military academy preparatory school and who are discharged other than dishonorably prior to commission are veterans for FSA purposes but might not be veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if the early exit cadet meets one of the other criteria for independence, then no resolution is required. If, however, an early exit cadet meets no other independence criteria, the school will have to perform a dependency override to make the student independent. Of course, the school must have appropriate documentation of the student's situation.

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### Student living with relatives example

Malia's father is dead, and her mother can't support her, so she is living with her grandmother. Her mother doesn't pay any money for her support. Malia doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Malia will have to provide information about her mother on the form unless her school has proof of unusual circumstances that would warrant a dependency override. Either way, the school might use PJ to account for the grandmother's support.

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### Dependency overrides

HEA Sec. 480(d)(7). Also see Dear Colleague Letter GEN-03-07.

time the student has to have served to be a veteran, but it does have to be active service. This is less stringent than the VA's definition of veteran for receiving certain VA benefits.

The application also tells students to answer "Yes" to the question about veteran status if they aren't yet a veteran but will be by June 30, 2006. Students who attended a **U.S. military academy** or its preparatory school (USMAPS or NAPS, not high school academies) for at least one day and were released under conditions other than "dishonorable" count as veterans for Title IV purposes. Students serving in ROTC or currently attending a U.S. military academy are not veterans.

Members of the **National Guard or Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not "dishonorable."

### *Dependency overrides*

The Higher Education Act allows an aid administrator to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the administrator determines that an override is appropriate, she must write a statement detailing the determination and must include the statement and supporting documentation in the student's file. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances meriting a dependency override:**

- 1) Parents refuse to contribute to the student's education;
- 2) Parents are unwilling to provide information on the FAFSA or for verification;
- 3) Parents do not claim the student as a dependent for income tax purposes;
- 4) Student demonstrates total self-sufficiency.

**Unusual circumstances do include** an abusive family environment or abandonment by parents and may cause any of the above conditions. In such cases a dependency override might be warranted. See Chapter 5 for more information on other professional judgment (PJ) changes.

An aid administrator may override only from dependent to independent (though as noted earlier, if an independent student receives substantial support from her parents, a school may use PJ to adjust the COA or FAFSA data items such as untaxed income).

Also, overrides do not transfer from one school to another—they are valid only at the school that performs them. Nor do they carry over from one year to the next; the financial aid office must



reaffirm each year that the unusual circumstances persist and that an override is still justified.

Generally the documentation of unusual circumstances should come from a third party that knows the student's situation (such as a teacher or member of the clergy), but in cases where this is not available, the school can accept a signed and dated statement from the student detailing the unusual circumstances.

To override the student's dependent status on an initial application through FAA Access, the aid administrator should use the Dependency Override code of "1" (see the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the aid administrator marks the oval for an override, labeled "D/O," in the "School Use Only" box, fills in the school's federal school code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, the FAA can use FAA Access to CPS Online to authorize or cancel an override; overrides cannot be done on the SAR.

# STEP 3

## Dependency overrides

### Overrides and professional judgment

The phrase "professional judgment" is commonly used for the discretion that FAAs apply to dependency overrides and to data adjustments in the application. It is important to note that the provisions for these two types of changes are in separate places in the HEA. The citation for dependency overrides is in Sec. 480(d)(7); the citation for data adjustments is found in 479A and is copied in toto in a margin note in the last chapter of this guide.

### FAFSA School Use Only Box

<b>SCHOOL USE ONLY:</b>	Federal School Code
D/O <input type="radio"/> <sup>1</sup>	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
FAA Signature	
<input type="text"/>	

### Overrides performed at another school

When a school performs an override for a student, any other schools also listed on that transaction will not receive the resulting ISIR. But if the student then adds your school to that transaction, you will receive an ISIR with the other school's override. You cannot simply accept that override; as noted in the text on this page, overrides do not carry over from one school to another, and you will have to gather the necessary documentation if you decide to make the student independent.



# STEP 3

## Who is a parent or has dependents

### Who Counts as a Parent?

If the applicant answers “No” to questions 48–54, then she is dependent and must report parental information. In most cases it’s clear who the parents are, but not always.

#### ✓ **Adoptive parents and stepparents**

An adoptive parent is treated just like a biological parent. For reporting income and assets in Step 4, a stepparent is considered a parent if married to a biological or adoptive parent and if the student counts in their household size.

However, a stepparent who did not adopt the student cannot be the sole parent for determining dependency status. If the other parent dies, the student is still a dependent of the remaining biological parent, not the stepparent. If no biological parent remains, the student answers “Yes” to Question 53 and is independent.

#### ✗ **Foster parents, legal guardians, and other relatives**

A foster parent or a legal guardian is not treated as a parent for FSA purposes. If the student’s parents are dead, he is independent. Otherwise, a dependent student must report information about his parents even if he has a legal guardian, unless the school has a documented reason to perform a dependency override.

If a student is living with her grandparents or other relatives, the same principle applies. Unless the relatives have adopted the student, their income should not be reported on the FAFSA as parental income. Any cash support from persons other than the student’s parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student’s financial resources and use professional judgment to include the support under the item for student’s untaxed income (see chapter 5 on professional judgment).

## Other sources of support for children and other household members

If the student is receiving support to raise her child, is the child still considered a legal dependent? If one or both of the student’s parents are directly or indirectly providing more than 50% support in cash or other assistance to the child, then the student would answer “No” to the FAFSA question about legal dependents. “Indirect support” to the child includes support that a parent gives to the student on behalf of the child. If the student is living with a parent who is paying for most of the household expenses, the parent would usually be considered the primary source of support to the child, and the student would answer “No” to the question about legal dependents. However, there may be some cases where the student can demonstrate that she provides more than half of her child’s support even while living at home, in which case she would answer “Yes” to the question about legal dependents.

When the student receives money for the child from any source other than her parents, she may count it as part of her support to the child. Sources include child support and government programs, such as Temporary Assistance to Needy Families (TANF), that provide benefits for dependent children. (The Department does not follow the IRS guidelines, which state that such recipients cannot claim their children as legal dependents because the assistance program provides more than 50% of the children’s support.) Therefore, a student may be considered independent when one of the primary means of support for her child is the benefit she receives for the child. If a student’s boyfriend provides more than 50% support for her child, and if he is also a student and the father of the child, then both he and the student would be able to count the child as a dependent and in their household size, and both would be independent.



# STEP 3

## Veteran match

### Veteran match (for question 54)

If the student answers “Yes” to the question about veteran status, the CPS performs a match with the Department of Veterans Affairs (VA) records to confirm that status. The VA sends the result back, which appears as a match flag in the FAA Information section of the output document. For flags 2 and 3, the CPS now assumes that the answer to the veteran question is “Yes” instead of “No.” Also, for flags 2, 3, and 4, a comment and a C flag will appear on the SAR only if veteran status is the sole reason that the student would be independent. See pp. B-27 through B-32 of the The ISIR Guide for 2005–2006.

#### Successful match (match flag 1)

There won’t be any comments on the output document if the VA confirms that the student is a veteran.

#### Not a veteran (match flag 2)

A student will receive this flag if the VA database indicates he is not a veteran. If the student answered “Yes” to one of the other dependency questions, he is independent based on that question and can receive student aid without resolving his veteran status. If the student answered “No” to all the other dependency questions and he believes he is or will be a qualifying veteran, he should provide the financial aid office at his school a copy of his DD214 (the Certificate of Release or Discharge from Active Duty, with “Character of Service” as anything but “dishonorable”). If he is still on active duty, he can obtain a letter from his commanding officer affirming that he will be discharged before June 30, 2006. If these documents show that he is or will be a veteran, he can receive aid as an independent student. A dependency override is no longer necessary because, as noted above, the answer to the veteran question is now assumed to be “Yes” instead of “No.” If a national guardsman or a reservist who served on active duty (for other than training) did not receive a DD 214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the character of service as anything but “dishonorable,” the student will be considered a veteran for FSA purposes. If the student turns out not to be a veteran, he will need to provide parent information if he is a dependent student.

If the VA match problem is due to an error in the VA’s database, the student should contact the VA and correct the error. A subsequent transaction will then redo the match with the VA.

#### Not on database (match flag 3)

Much of the guidance above applies for students not on the VA database: if the student is independent for a reason other than being a veteran, she doesn’t need to resolve the problem before receiving student aid, although she should have the VA correct its database if it’s wrong. If she answered “No” to the other dependency questions, she must either provide parent data, correct any problem with the VA, or resolve the veteran question by providing documentation showing she is a veteran or will be one by June 30, 2006.

#### Active duty (match flag 4)

If the student is currently on active duty, he isn’t a veteran yet, but if his active duty status will end by June 30, 2006, he counts as a veteran for dependency status. Because he might be a veteran later in the year, the CPS assumes that the answer to the veteran question is “Yes,” though before the school can disburse aid, the student must provide documentation, such as a letter from a commanding officer, that he will be released from active duty by June 30, 2006. If he is already independent by one of the other criteria, he doesn’t have to resolve this situation.



# STEP 4

## Questions 55–83 Parents' data

### FSA and IRS household rules

The rules that decide whether someone is counted in the household for FSA purposes aren't identical to the IRS rules for determining dependents or household members.

### Dependent student household size example

Lydia is a dependent student, and her parents are married. Her brother Ron is 26, but his parents still provide more than 50% of his support, so he is included in the household size. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is 5.

### Example: surviving parent and stepparent

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died last year, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

## STEP FOUR: PARENTS' INFORMATION (DEPENDENT STUDENTS ONLY)

**Purpose:** Questions 55–69 collect information about the student's parents and their household. Questions 70–83 collect tax and financial information for the parents, and because these questions are answered in the same way as for the student, they were discussed under Step 2.

■ **Questions 57–64 (parents' personal information)** The FAFSA asks for parents' social security numbers, last names, first initial, date of birth, and month and year they were married, separated, divorced, or widowed. This is to prepare for a possible match with the IRS on AGI, taxes paid, filing status, and number of exemptions claimed. If the SSN, last name, and birth date for at least one parent are not provided, or if they don't match with the Social Security Administration, the application will be rejected. When the SSN doesn't match with SSA, the wrong number must be corrected so that the application and SSA agree. For a name or birth date that doesn't match, correct the application if it's wrong or re-enter the information if it's correct. If the parent doesn't have an SSN, the student should enter 000-00-0000 to prevent or remove a reject code.

■ **Question 65 (household size)** The household size determines the standard living allowance that offsets the family income in the EFC calculation. The following persons may be included in the household size of a dependent student's parents:

- ➔ **The student and parents**, even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce.
- ➔ **The student's siblings and children**, if they will receive more than half their support from the student's parent(s) from July 1, 2005, through June 30, 2006. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

For the purpose of including children in the household size, the "support test" is used rather than residency because there may be situations in which a parent supports a child who does not live with her, such as when the parent is divorced or separated. If the parent receives benefits (such as social security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for FSA purposes are not considered children of the foster parents and are not counted in the household size.



## Reporting information in cases of death, separation, divorce, and remarriage

If the parents of a student divorce or separate, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

### Death of a parent

If one, but not both, of the student's parents has died, the student answers the parental questions about the surviving biological or adoptive parent and does not report any financial information for the deceased parent. If both her parents are dead when she fills out the FAFSA, she must answer "yes" to Question 53, making her independent. Remember that an adoptive parent counts as a parent, but a legal guardian doesn't. If the last surviving parent dies after the FAFSA has been filed, the student must update her dependency status and report income and assets as an independent student.

### Stepparent

A stepparent is treated like a biological parent if the stepparent has legally adopted the student or if the stepparent is married, as of the date of application, to a student's biological or adoptive parent whose information will be reported on the FAFSA.

**There are no exceptions.** A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2004, must be reported even if the parent and stepparent were not married until after 2004. See above for how to fill out the parent questions when the stepparent's spouse (the biological parent) dies; if the stepparent has not adopted the student, he would no longer provide parental information as before, but any financial support he gives to the student would be counted as untaxed income.

### Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the twelve months prior to the date he completes the application, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last calendar year for which it was given. Note that it is not typical that a student will live with or receive support from both parents exactly equally. Usually you can determine that the student lived with one of the parents more than half the year or that he received more than half support from one of the parents.

### Separation of the student's parents or the student and spouse

A couple need not be legally separated to be considered separated—they may deem themselves informally separated when one of the partners has left the household for an indefinite period and the marriage is severed. While a married couple that lives together can't be informally separated, in some states they can be legally separated. If their state allows this, and if they are still living together and are legally separated, then that is their status on the FAFSA. For a dependent student, use the rules for divorce to determine which parent's information to report.

### Common-law marriage

If a couple lives together and has not been formally married but meets the criteria in their state for a common-law marriage, they should be reported as married on the application. If the state doesn't consider their situation to be a common-law marriage, then they aren't married; a dependent student would follow the rules for divorce to determine which parent's information to report. Check with the appropriate state agency concerning the definition of a common-law marriage.



# STEP 5

## Questions 84–85 Student household

### Number in college

HEA Sec. 474(b)(3)

### Death, separation, divorce

HEA Sec. 475(f)

### Divorce example

Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his data on the FAFSA.

### Independent student household size example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from Eddy (and will do so for the award year), so he can be counted in Eddy's household size, which is 2.

Having just turned 24, Chavo is also independent, and his household size is 1.

➔ **Other persons** who at the time of application live with and receive more than half their support from the student's parent(s) and will continue to receive more than half support for the entire award year.

■ **Question 66 (number in college)** The EFC calculation accounts for the expense of having other students in the household. The applicant should **always** be included in the number in college, but the parents are not included. Others who count in the household size are counted in the number in college if they are or will be enrolled at least half time in an eligible degree or certificate program during the award year at a school eligible for any of the Title IV (FSA) programs, and if they can reasonably be expected to receive aid from the family for their education. This excludes students at a U.S. military academy because their entire education is paid for.

■ **Questions 67–69** The parents' state of residence is used in the federal need analysis. Parents who do not live in the U.S. should enter "FC" for Question 67.

■ **Questions 70–83 (tax forms filed by parents, income, and assets)** The criteria for reporting income, assets, and the tax forms filed are basically the same for parents as for the student, so refer to the discussion in Step Two for these questions.

## STEP FIVE: HOUSEHOLD SIZE AND NUMBER IN COLLEGE (INDEPENDENT STUDENTS ONLY)

**Purpose:** Questions 84 and 85 collect information about independent students. Only students who answered "Yes" to one or more questions in Step Three complete this step.

■ **Question 84 (student's household size).** The following persons are included in the household size of an independent student:

➔ **The student and his or her spouse**, unless the spouse has died or is not living in the household due to separation or divorce.

➔ **The student's children**, regardless of where they live, if they will receive more than half of their support from the student from July 1, 2005, through June 30, 2006. This includes the student's unborn children who will be born during the award year and will receive more than half their support from the student from birth to the end of the award year. As noted for dependent students, foster children do not count in household size.

➔ **Other persons** who at the time of applying live with and receive more than half their support from the student and will continue to get more than half support for the entire award year.



- **Question 85 (number in college).** The student should **always** be included in the number in college. Other members of the household are counted if they are or will be enrolled at least half time in a degree or certificate program during the award year at a Title IV-eligible school and if they can reasonably be expected to receive aid from the family for their education. This excludes students at a U.S. military academy because their entire education is paid for. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.)

## STEP 6

### Questions 86–98 School information & enrollment status

#### STEP SIX: SCHOOL INFORMATION

**Purpose:** These questions collect information about which postsecondary schools the student wants to receive his FAFSA information. He can list up to six schools to which ED will make his information available.

For each school, the student is asked to indicate whether she expects to live on campus, off campus, or with her parents. While this information is not used to calculate the student's EFC, it is useful to schools for determining the cost of attendance.

If the student wants information to be available to more than six schools, she can use her SAR or Corrections on the Web to change the schools listed. Note that the CPS will send data to no more than six schools at a time for one student. Chapter 5 describes how a student can add or change schools on the list.

For a college to be able to receive a student's data, the student must list the college's federal school code or enter its complete name, address, city, and state. School codes, which are not the same as the OPE ID, are not provided in the FAFSA; they are in a separate publication, the *Federal School Code List*, which ED sends to high schools, colleges, and public libraries each fall around the time the FAFSAs are distributed. The federal school codes are also on the Internet at [www.fafsa.ed.gov](http://www.fafsa.ed.gov).

- **Question 98** asks whether at the start of the academic year the student plans to attend full time, three-quarter time, half time, less than half time, or isn't sure. This information will help the college package the student's aid. A student who is applying to more than one school should provide the enrollment status for the school he is most likely to attend.



# STEP 7

## Questions 99–103 Signatures

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### Copies of signed documents

While you will often receive documents with original or “wet” signatures from the student (e.g., a paper FAFSA that the student has worked on and signed while in your office), there might be an occasion where the student gives you a copy or sends you a fax of a signed document. These imaged versions of the original signed document are valid and may be kept in the student's file.

### STEP SEVEN: SIGNATURE REQUIREMENTS

**Purpose:** By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported.

■ **Questions 99–100** In addition to certifying that the data on the FAFSA are correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend the FSA award only on educational expenses and affirms that he is not in arrears on federal loans or grants. If the student is dependent, one parent whose information is reported on the FAFSA must also provide a signature.

■ **Questions 101–103** The law requires that if anyone other than a student, the student's spouse, or the student's parents prepares the application, then the preparer must include his name, his company's name (if applicable) and address, and either his SSN or the company's Employer Identification Number (EIN, as assigned by the IRS). The preparer must also sign the form.

High school counselors, aid administrators, and others who help students with their applications by actually filling out line items on the form or dictating responses to items on the form are considered preparers. Preparers must complete this section even if they are not paid for their services.

## Substitutes for a parent's signature

Although parental information must be provided for a dependent student, a high school counselor or a postsecondary school's aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States **and** cannot be contacted by normal means,
- the current address of the parents is not known, or
- the parents have been determined physically or mentally incapable of providing a signature.

The proxy signature serves as a mechanism to get the application through the processing system. The signer must provide her title in parentheses next to her signature and briefly state the reason (only one is needed) why she is signing for the parents. The signer assures a minimum level of credibility in the data submitted, however, she does not assume any responsibility or liability in this process. If the counselor or FAA finds any inaccuracies in the information reported, she should direct the student to send the SAR through the normal correction process or should submit corrections through FAA Access.



## Signature Requirements: Application and Verification for all FSA programs

	<i>Application</i> (FAFSA, FAFSA on the Web, FAA Access to CPS Online)	<i>IRS Forms</i> 1040 or other form submitted for verification	<i>Verification Worksheet</i>
<b>Student</b>	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, echo document, or signature page or with PIN).	Tax return must be signed by student (or spouse), or the tax preparer must provide his name and SSN, EIN, or PTIN.	Must sign worksheet
<b>Parent(s)</b> (if student is dependent)	One parent must sign statement that data are accurate (on paper FAFSA, echo document, or signature page or with PIN).	Tax return must be signed by parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign
<b>Aid Administrator</b>	Must certify if overriding dependency status (can't be done on FAFSA on the Web).		

## Signature Requirements for Changes \*

	<i>Changes via SAR or Corrections on the Web</i>	<i>Changes submitted via FAA Access</i>	<i>Professional Judgment through FAA Access</i>
<b>Student</b>	Must sign corrections statement on Part 2 of SAR; on the Web the PIN serves as the student's signature.		
<b>Parent(s)</b> (if student is dependent)	One parent must sign the corrections statement on Part 2 of the SAR. If parental data are changed on the Web, parent must sign with PIN or print and sign signature page.		
<b>Aid Administrator</b>		School must have signed documentation.	Must certify for adjustments or dependency override.

\*These signature requirements apply to any submission of changes to the Central Processing System, whether required by regulation (for Pell Grant recipients or corrections to data match items) or at the discretion of the financial aid administrator (for campus-based aid and Stafford Loans).



## Signatures for electronic applications

### FAA Access to CPS Online

If you enter a student's application through FAA Access to CPS Online, you must obtain original or "wet" signatures on a completed paper FAFSA or on the printed "echo document," and you must keep the signed document in the school files even if the student doesn't receive federal student aid or attend your school. You may electronically store the original document, but you may not accept faxed or copied signatures from the student for the FAFSA. (You have more latitude regarding photocopies for verification documents; see p. 80.)

### FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Both parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth along with the PIN. Parents also must provide their child's name ID, SSN, and DOB in order to match the parent's signature record with the student's FAFSA. See Action Letter #7 (Feb. 2001) for more details.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn't receive the signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student ("no student signature on an electronic application"), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won't wait 14 days to print a rejected SAR for the student, but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an EFC for the student or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required signatures at the school, either on the SAR or a document that has the required certification statements (FAA Access allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

### Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN along with other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or "wet" signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

Parents of dependent students can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a "reject 15" (no parent signature) output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student's SAR and ISIR will reflect the data provided on the application, but the processor won't calculate an EFC for the student until it receives the parent's electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in chapter 5.



# Expected Family Contribution (EFC)

*The EFC is a measure of how much the student and his or her family can be expected to contribute to the cost of the student's education for the year. The EFC is calculated according to a formula specified in the law. In this chapter, we describe the EFC formula in detail.*

## GENERAL INFORMATION

All the data the CPS uses to calculate the EFC come from the information the student provides on the FAFSA. The EFC formula incorporates many variables, including income, assets, the number of persons in the household, and the number attending college for the award year.

Every year the Department publishes updated tables used in the EFC calculation. Most of the 2005–2006 tables are in the June 17, 2004 *Federal Register*; the state tax table is in the December 23 edition.

The law provides three different formulas to calculate the EFC: one for dependent students, one for independent students without dependents other than a spouse, and one for independent students with dependents other than a spouse. In addition there are three simplified versions of each formula with fewer data elements.

## SIMPLIFIED FORMULA

The simplified formula is basically the same as the regular formula, except that asset information isn't considered in the calculation. A dependent student qualifies for the simplified calculation if:

- neither the student nor his parents were required to file an IRS Form 1040,\* and
- the parents' combined AGI (for taxfilers) or income earned from work (for nonfilers) was less than \$50,000.\*\*

An independent student qualifies for the simplified calculation if

- neither the student nor spouse was required to file an IRS Form 1040,\* and
- the student's and spouse's combined AGI (taxfilers) or income earned from work (nonfilers) was less than \$50,000.\*\*

## Basic EFC formulas

- ➔ Dependent students
- ➔ Independent students
- ➔ Independent students with dependents

## Special calculations

- ➔ Simplified formula (no assets)
- ➔ Automatic zero EFC
- ➔ Other than 9-month enrollment

HEA Sec. 474, 475, 476, 477, 478, 479

\* A family member who was not required to file the IRS Form 1040 may have filed the 1040 solely to claim an education tax credit—this does not disqualify the applicant for purposes of the simplified formula or the automatic zero EFC.

\*\* Beginning with the 2004 tax returns, the IRS has changed the income limit for filing a 1040A, 1040EZ, or TeleFile form from \$50,000 to \$100,000. This has no relation to the income limit for qualifying for the simplified formula.



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### Other tax forms

A foreign tax return counts as an IRS Form 1040 to determine if one qualifies for the simplified formula and the automatic zero EFC. A tax return for Puerto Rico, Guam, American Samoa, the Virgin Islands, Marshall Islands, the Federated States of Micronesia, or Palau counts as an IRS Form 1040A or 1040EZ for the purposes of qualifying for the simplified formula and the automatic zero EFC.

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### Assets not reported on FAFSA

If the student doesn't provide any asset data and qualifies for the simplified formula, her application will still be processed normally. She will only receive one EFC, which will be produced by the simplified formula. However, if the student doesn't qualify for the simplified formula, her application will be rejected and she will have to submit asset data before the CPS will calculate an EFC.

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### Automatic zero EFC

Sec. 479(c)

\* A family member who was not required to file the IRS Form 1040 may have filed the 1040 solely to claim an education tax credit—this does not disqualify the applicant for purposes of the simplified formula or the automatic zero EFC.

The application asks for asset information from all students. If the student qualifies for the simplified formula and provides the assets, the CPS will make two EFC calculations: one using the assets and one excluding them. The EFC from the simplified formula (which excludes assets) is called the primary EFC and is printed on the front of the student's SAR, while the EFC from the full calculation is called the secondary EFC and is printed in the FAA Information section. To determine the student's aid, the school must use the primary EFC, which will always be less than or equal to the secondary EFC. If it turns out that the student was not eligible for the simplified formula, the school must correct and submit the record and use the EFC reported on the resulting transaction.

### AUTOMATIC ZERO EFC

The law also provides for an automatic zero EFC for some students. The CPS will assign a zero EFC to a dependent student if:

- neither the parents nor the student was required to file an IRS Form 1040,\* and
- the parents' combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is \$15,000 or less.

An independent student with dependents other than a spouse automatically qualifies for a zero EFC if:

- neither the student nor spouse was required to file an IRS Form 1040,\* and
- the student's and spouse's combined AGI (for taxfilers) or combined income earned from work (for nonfilers) is \$15,000 or less.

Independent students with no dependents other than a spouse do not qualify for an automatic zero EFC.

### ALTERNATE EFCs

The law specifies how the EFC of a dependent student must be modified if the student is going to enroll for other than a nine-month period. The EFC found in the upper-right-hand corner of the first page of the output document is based on a nine-month enrollment period and should always be used for awarding a Pell grant, even if the student is attending for a longer or shorter period. The second section of the "FAA Information" area contains a table of alternate primary and secondary EFCs for periods of one to twelve months. These are alternate EFCs that you must use to award aid if the student is attending for other than nine months.



## FORMULA A — DEPENDENT STUDENTS

The EFC for a dependent student is calculated using the FAFSA information for the student and his parents. The CPS calculates the parents' contribution, the student's contribution from income, and the student's contribution from assets; the EFC is the sum of these three. The parents' contribution includes a contribution from assets.

Under the simplified formula the parent's contribution doesn't include assets, nor is the student's contribution from assets counted.

Worksheets and tables that can be used to calculate the EFC for a dependent student are given at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

### *Parents' contribution*

There are three basic steps in calculating the parents' contribution. First, the parents' available income is determined. Then, the parents' contribution from assets is calculated. Finally, the parents' contribution is calculated using the available income, the contribution from assets, and the number in college.

▼ **Parents' available income.** The parents' available income is calculated by subtracting certain allowances from the parents' total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

The total income is the sum of the taxable and untaxed income, minus amounts reported in the income but excluded from the formula. If the parents are taxfilers, the parents' AGI as reported on the FAFSA is the amount of the parents' taxable income used in the calculation. If the parents are not taxfilers, the calculation uses the parents' reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the parents are taxfilers (the Department recommends that eligible persons file a tax return and receive the EIC). Total income can be a negative number.

The sum of the following allowances are used to reduce the parents' total income:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.
- **State and other tax allowance.** Use Table A1. This allowance is a percentage of parents' total income and approximates the

### Formula for dependent students

- **Parents' contribution**  
Parents available income  
Parents contribution  
from assets  
Number in college
- **Student's contribution from income**
- **Student's contribution from assets**



average amount paid in state and other taxes. The percentage varies according to the state and according to whether the parents' total income is below \$15,000 or is \$15,000 or more. The state used is the parents' state of legal residence reported on the FAFSA. If this item is blank or invalid, the student's reported state of legal residence is used. If both are blank or invalid, the state in the student's mailing address is used. If all three are blank or invalid, the rate shown in Table A1 for a blank or invalid state is used (3% for total income below \$15,000; 2% for total income of \$15,000 or more). If the allowance is a negative amount, it's set to zero.

- **Father's and mother's Social Security tax allowance.** The father's and mother's Social Security taxes are calculated separately by applying the tax rates shown in Table A2 to the father's income earned from work and the mother's income earned from work in 2004 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** Use Table A3. This allowance is for the basic living expenses of a family. It varies according to the number in the parents' household and the number in college in 2005-2006, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA").
- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. For two working parents, the allowance is 35% of the lesser of the father's income earned from work (question 76) or the mother's income earned from work (question 77), but may not exceed \$3000. For one-parent families, the allowance is 35% of the parent's income earned from work, also not to exceed \$3000. If a student's parents are married and only one parent reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

▼ *Parents' contribution from assets.* In the full formula, the assets of parents of a dependent student are considered in order to fully measure the family's ability to help pay college costs. The formula evaluates the family's assets and determines a "contribution from assets," an amount that is combined with available income to give an accurate picture of the family's financial strength. In the simplified formula assets aren't counted.



First, the parents' **net worth** is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table A4 to calculate the amount to be used.

Second, the parents' **discretionary net worth** is calculated by subtracting the education savings and asset protection allowance (Table A5) from the parents' net worth. As with income, this is done to protect a portion of assets. The allowances for ages 40 through 65 approximate the present cost of an annuity which, when combined with Social Security benefits, would provide at age 65 a moderate level of living for a retired couple or single person. As shown in Table A5, the allowance increases with the age of the older parent (as reported on the FAFSA) to indicate the cost of purchasing such an annuity at a given age. Discretionary net worth may be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **parents' contribution from assets**, which represents the portion of parental assets considered available to help pay for the student's postsecondary education. If the contribution from assets is less than zero, it is set to zero.

▼ *Calculation of parents' contribution.* This is the final step in determining the parents' contribution. The parents' available income and contribution from assets are added together to determine the parents' adjusted available income, which can be a negative number. The total parents' contribution from adjusted available income is calculated from the amounts and rates in Table A6 and is the total amount parents are expected to contribute toward all of their family's postsecondary educational costs. The rates in Table A6 increase from 22% to 47% as the adjusted available income increases. This is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases and the portion available for discretionary purposes increases. Therefore, a progressively larger amount of income may be contributed toward postsecondary educational costs.

The parents' contribution for the individual student is calculated by dividing the total parents' contribution from adjusted available income by the number in college in 2005-2006, as reported on the FAFSA. Parents are not included in the number attending college.

### ***Student's contribution from income***

To determine the student's contribution from income, the student's available income (AI) is first calculated by subtracting total allowances from the student's total income. The AI is then assessed at a rate of 50% to obtain the student contribution from available income. If the student contribution from available income is less than zero, it's set to zero.

▼ *Student's available income.* The available income is the student's total income minus total allowances. As with the parents' income information, the student's total income is calculated using information



from the student's FAFSA. The student's total income is the sum of the student's taxable and untaxed income, minus amounts reported in the income but excluded from the formula (see chapter 2 for more on these exclusions). If the student is a taxfiler, the student's AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student is not a taxfiler, the calculation uses the student's reported income earned from work. Total income may be a negative number.

The allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.
- **State and other tax allowance.** Use Table A7. This allowance is a percentage of the student's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the parents' state of legal residence is used. If all three items are blank or invalid, the rate for a blank or invalid state in Table A7 is used (2%). If the allowance is a negative amount, it's set to zero.
- **Social Security tax allowance.** The student's Social Security taxes are calculated by applying the tax rates shown in Table A2 to the student's income earned from work in 2004 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** The income protection allowance for a dependent student is \$2,440.
- **Parent's negative AAI.** To recognize that a student's income may be needed to help support the family, the EFC calculation allows a parent's negative adjusted available income (AAI) to reduce a dependent student's contribution from income. Because the student's contribution from income cannot be negative, this will not affect the student's contribution from assets.

### ***Student's contribution from assets***

The student's assets are treated the same way as the parents' assets with three differences: there is no adjustment to the net worth of a business or farm, there is no education savings and asset protection allowance, and net worth is assessed at the rate of 35%. Remember that under the simplified formula there is no student contribution from assets.

The student's net worth is calculated by adding assets reported on the FAFSA (negative amounts are converted to zero for this calculation). Then, the student's net worth is multiplied by the conversion rate of 35% to obtain the student's contribution from



assets, which represents the portion of the value of student's assets that may be considered available to help pay for the student's postsecondary education.

### ***Alternate EFCs for other than nine-month enrollment***

The standard parents' contribution is for a nine-month enrollment period. For a shorter period, the parents' contribution is prorated according to the number of months of enrollment. The student's contribution from available income is also prorated and then added to the student asset contribution, which is not prorated. For an enrollment of more than nine months, the parents' contribution is calculated by adjusting the standard nine-month formula on page 3 of Worksheet A of the EFC worksheets, and the student's contribution remains at the nine-month amount.

### **Formula for independent students without dependents other than a spouse**

- Contribution from available income
- Contribution from assets

## **FORMULA B — INDEPENDENT STUDENT WITHOUT DEPENDENTS OTHER THAN A SPOUSE**

The EFC for an independent student without dependents other than a spouse is calculated using the FAFSA information for the student and spouse. The CPS calculates a contribution from available income and a contribution from assets. The sum of these two is divided by the number in college in 2005–2006, as reported on the FAFSA. The result is the EFC for the 2005–2006 award period. Under the simplified formula, the contribution from assets isn't used.

Worksheets and tables that can be used to calculate the EFC for an independent student without dependents other than a spouse are given at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

### ***Contribution from available income***

To determine the student's contribution from available income, the student's available income is first calculated by subtracting total allowances from the student's total income. The allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number. The available income is then assessed at a rate of 50% to obtain the student's contribution from available income.

▼ **Total income.** The total income is the sum of the student's and her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see chapter 2 for more on these exclusions). If the student and spouse are taxfilers, their AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Untaxed income is included in the formula



because it may have a considerable effect on the family's financial strength and, in some cases, may be the family's main source of income. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student or spouse are taxfilers. Total income can be a negative number.

▼ *Allowances against income.* Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it's set to zero.
- **State and other tax allowance.** Use Table B1. This allowance is a percentage of the student and spouse's total income. The percentage varies according to the state. The state to be used is the student's state of legal residence reported on the FAFSA. If that item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (2%). If the allowance is a negative amount, it's set to zero.
- **Social Security tax allowance.** The student and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table B2 to the student's income earned from work in 2004 and the spouse's income earned from work in 2004 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** The income protection allowance for an unmarried student is \$5,560. For a married student, the income protection allowance is \$5,560 if the student's spouse is enrolled at least half time, and \$8,890 if the student's spouse isn't enrolled at least half time.
- **Employment expense allowance.** Families with two working spouses have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. If the student isn't married, the employment expense allowance is zero. If the student is married but only one person is working (either the student or the student's spouse), the allowance is zero. If both the student and his spouse are working, the allowance is 35% of the lesser of the student's income earned from work (question 38) or the spouse's income earned from work (question 39), but may not exceed \$3,000.

### *Contribution from assets*

For students who qualify for the simplified formula, there is no contribution from assets. In the full formula, the assets of an independent student with no dependents other than a spouse are



considered in order to fully measure the family's ability to contribute toward postsecondary educational costs.

First, the **net worth** of the student and spouse's assets is calculated by adding assets reported on the FAFSA. The net worth of a business or a farm is adjusted to protect a portion of the net worth of these assets. Use Table B3 to calculate the amount to be used.

Second, the student and spouse's **discretionary net worth** is calculated by subtracting the asset protection allowance (Table B4) from the net worth. The allowance increases with the age of the student as of December 31, 2005, which may be determined from the student's date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 35% to obtain the student and spouse's contribution from assets, which represents the portion of the value of the assets that is considered available to help pay for the student's college education. If the contribution from assets is less than zero, it's set to zero.

### ***Alternate EFCs for other than nine-month enrollment***

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.

## **FORMULA C — INDEPENDENT STUDENT WITH DEPENDENTS OTHER THAN A SPOUSE**

The EFC for an independent student with dependents other than a spouse is calculated using the information for the student and spouse provided on the FAFSA. The formula is almost the same as the formula for the parents of a dependent student. There are three basic steps. First, the student's available income is determined. Then, the student's contribution from assets is calculated. Finally, the EFC is calculated using the available income, the contribution from assets, and the number in college.

Worksheets and tables that can be used to calculate the EFC for an independent student with dependents other than a spouse are given at the end of this chapter. For those items that are taken from the FAFSA, the worksheets indicate the corresponding FAFSA/SAR line numbers. On the worksheets for the simplified formula, the parts of the calculation that aren't used are grayed out.

### **Formula for independent student with dependents other than a spouse**

- Available income
- Contribution from Assets
- Calculation of the student's EFC



**Available income**

Available income is calculated by subtracting certain allowances from the student's total income. These allowances account for certain nondiscretionary expenses, such as taxes and basic living expenses. Once a minimum level of support has been provided for those expenses, the formula assumes that the remaining income is available for discretionary purposes, including paying for a postsecondary education. The available income can be a negative number.

▼ **Student's total income.** The student's total income is the sum of the student's and his or her spouse's (if the student is married) taxable and untaxed income, minus amounts reported in the income on the FAFSA but excluded from the formula (see chapter 2 for more information on these exclusions). If the student and spouse are taxfilers, AGI as reported on the FAFSA is the amount of taxable income used in the calculation. If the student and spouse are not taxfilers, the calculation uses reported income earned from work. Note that "earned income credit" is included as part of total untaxed income and benefits only if the student and spouse are taxfilers. Total income can be a negative number.

▼ **Allowances against income.** Total allowances are calculated by adding the following:

- **U.S. income tax paid.** Use the amount reported on the FAFSA. Non-taxfilers don't receive this allowance. If this is a negative amount, it is set to zero.
- **State and other tax allowance.** Use Table C1. This allowance is a percentage of the total income and approximates the average amount paid in state and other taxes. The percentage varies according to the state and according to whether the total income is below \$15,000 or is \$15,000 or more. The state to be used is the student's state of legal residence reported on the FAFSA. If this item is blank or invalid, the state in the student's mailing address is used. If both items are blank or invalid, the rate for a blank or invalid state is used (3% for total income below \$15,000; 2% for total income of \$15,000 or more). If the allowance is a negative amount, it's set to zero.
- **Social Security tax allowance.** The student's and spouse's Social Security taxes are calculated separately by applying the tax rates shown in Table C2 to the student's income earned from work and the spouse's income earned from work in 2004 (as reported on the FAFSA). The total allowance for Social Security taxes is never less than zero.
- **Income protection allowance.** Use Table C3. This allowance provides for the basic living expenses of a family. It varies according to the number in the student's household and the number in college in 2005-2006, as reported on the FAFSA. In general, a school can assume that 30% of the income protection allowance amount is for food, 22% for housing, 9% for



transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as “IPA”).

- **Employment expense allowance.** Families with two working parents and one-parent families have extra expenses that must be considered, such as housekeeping services, transportation, clothing and upkeep, and meals away from home. This allowance recognizes those extra expenses. When both the student and spouse work, the allowance is 35% of the lesser of the student’s income earned from work (question 38) or the spouse’s income earned from work (question 39), but may not exceed \$3,000. If the student isn’t married, the allowance is 35% of the student’s income earned from work, or \$3,000, whichever is less. If a student is married and only the student *or* the spouse (but not both) reports an income earned from work, the allowance is zero. The employment expense allowance is never less than zero.

### *Contribution from assets*

In the full formula, the assets of an independent student with dependents other than a spouse are considered in order to fully measure the family’s ability to contribute toward postsecondary educational costs. The formula determines a “contribution from assets,” an amount that is combined with available income to give an accurate picture of the family’s financial strengths. In the simplified formula, the assets aren’t counted at all.

First, the **net worth** of a student and spouse’s assets is calculated by adding assets reported on the FAFSA. The net worth of a business or farm is adjusted to protect a portion of these assets. Use Table C4 to calculate the amount to be used.

Second, the student and spouse’s **discretionary net worth** is calculated by subtracting the asset protection allowance (Table C5) from the net worth. The allowance increases with the age of the student as of December 31, 2005, which may be determined from the student’s date of birth as reported on the FAFSA. This is done to protect a portion of assets that may be needed for purposes other than education, such as emergencies or retirement. Discretionary net worth can be less than zero.

Finally, the discretionary net worth is multiplied by the conversion rate of 12% to obtain the **contribution from assets**, which represents the portion of the value of the student and spouse’s assets that may be considered to be available to help pay for the student’s postsecondary education. If the contribution from assets is less than zero, it is set to zero.



### ***Calculation of student's EFC***

This is the final step in determining the EFC for the independent student with dependents other than a spouse. The available income and the contribution from assets are added together to obtain the adjusted available income. The adjusted available income can be a negative number. The total contribution from adjusted available income is calculated from using Table C6. This is the total amount the student's family is expected to contribute toward family postsecondary educational costs. The rates in Table C6 increase from 22% to 47% as the adjusted available income increases. The rate is based on the principle that as income increases beyond the amount needed to maintain a basic standard of living, the portion used for family maintenance decreases, while the portion available for discretionary purposes increases. The larger the income, the easier it is for a family to contribute toward postsecondary educational costs with less effect on the maintenance of the family.

The EFC is calculated by dividing the total student's contribution from adjusted available income by the number in college in 2005-2006, as reported on the FAFSA. The result is the EFC for the 2005-2006 award period.

### ***Alternate EFCs for other than nine-month enrollment***

The standard EFC is for a nine-month enrollment period. If the student will be enrolled for less than nine months, the EFC is simply prorated by dividing it by nine and then multiplying the result by the number of months the student will be enrolled. For an enrollment of more than nine months, however, the EFC remains at the nine-month amount.



# 2005-2006 EFC FORMULA **A**: DEPENDENT STUDENT

REGULAR  
WORKSHEET  
Page 1

**A**

PARENTS' INCOME IN 2004	
1. Parents' Adjusted Gross Income (FAFSA/SAR #73) (If negative, enter zero.)	
2. a. Father's/stepfather's income earned from work (FAFSA/SAR #76)	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #77) +	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #78)	
• Total from FAFSA Worksheet B (FAFSA/SAR #79) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #80) -	
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2004 U.S. income tax paid (FAFSA/SAR #74) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table A1. If negative, enter zero.) +	
10. Father's Social Security tax allow. (Table A2) +	
11. Mother's Social Security tax allow. (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$3,000, whichever is less	
• One-parent families: 35% of earned income, or \$3,000, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. <b>TOTAL ALLOWANCES</b> =	

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) -	
15. <b>AVAILABLE INCOME (AI)</b> May be a negative number. =	

\*STOP HERE if **both** of the following are true: line 3 is \$15,000 or less, **plus** the student **and** parents are eligible to file a 2004 IRS Form 1040A or 1040EZ (they are not required to file a 2004 Form 1040), or they are not required to file any income tax return. If both circumstances are true, the Expected Family Contribution is automatically zero.

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #81)	
17. Net worth of investments** (FAFSA/SAR #82) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #83) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. <b>Net worth</b> (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate X	.12
24. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero. =	

PARENTS' CONTRIBUTION	
Available Income (AI) (from line 15)	
Contribution from assets (from line 24) +	
25. <b>Adjusted Available Income (AAI)</b> May be a negative number. =	
26. <b>Total parents' contribution from AAI</b> (Calculate using Table A6; if negative, enter zero.)	
27. <b>Number in college in 2005-2006</b> (Exclude parents) (FAFSA/SAR #66) ÷	
28. <b>PARENTS' CONTRIBUTION</b> (standard contribution for 9-month enrollment)*** =	

\*\*Do not include the family's home.

\*\*\*To calculate the parents' contribution for other than 9-month enrollment, see page 11.

continued on reverse



## STUDENT'S INCOME IN 2004

29. Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.)	
30. Income earned from work (FAFSA/SAR #38)	
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)	
32. Untaxed income and benefits:	
Total from FAFSA Worksheet A (FAFSA/SAR #40)	
Total from FAFSA Worksheet B (FAFSA/SAR #41)	
Total untaxed income and benefits	
33. Taxable and untaxed income (sum of line 31 and line 32)	
34. Total from FAFSA Worksheet C (FAFSA/SAR #42)	-
35. <b>TOTAL INCOME</b> (line 33 minus line 34) May be a negative number.	=

## ALLOWANCES AGAINST STUDENT INCOME

36. 2004 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero.	
37. State and other tax allowance (Table A7. If negative, enter zero.)	+
38. Social Security tax allowance (Table A2)	+
39. Income protection allowance	+
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+
41. <b>TOTAL ALLOWANCES</b>	=

## STUDENT'S CONTRIBUTION FROM INCOME

Total income (from line 35)	
Total allowances (from line 41)	-
42. Available income (AI)	=
43. Assessment of AI	X
44. <b>STUDENT'S CONTRIBUTION FROM AI</b> If negative, enter zero.	=

## STUDENT'S CONTRIBUTION FROM ASSETS

45. Cash, savings & checking (FAFSA/SAR #43)	
46. Net worth of investments* (FAFSA/SAR #44) If negative, enter zero.	
47. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	+
48. <b>Net worth</b> (sum of lines 45 through 47)	=
49. Assessment rate	X
50. <b>STUDENT'S CONTRIBUTION FROM ASSETS</b>	=

## EXPECTED FAMILY CONTRIBUTION

PARENTS' CONTRIBUTION (from line 28)	
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+
51. <b>EXPECTED FAMILY CONTRIBUTION</b> (standard contribution for 9-month enrollment)** If negative, enter zero.	=

\*Do not include the student's home.

\*\*To calculate the EFC for other than 9-month enrollment,  
see the next page.



**Note:** Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford/Ford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

**Calculation of Parents' Contribution for a Student Enrolled LESS Than 9 Months**

A1. Parents' contribution (standard contribution for 9-month enrollment, from line 28)		
A2. Divide by 9	÷	<b>9</b>
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	X	
<b>A5. Parents' contribution for LESS than 9-month enrollment</b>	=	

**Calculation of Parents' Contribution for a Student Enrolled MORE Than 9 Months**

B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	<b>3,830</b>
B3. Alternate parents' AAI for more than 9-month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #66)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for 9-month enrollment (from line 28)	-	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	<b>12</b>
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	X	
B12. Adjustment to parents' contribution for months that exceed 9 (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for 9-month enrollment (from line 28)	+	
<b>B14. Parents' contribution for MORE than 9-month enrollment</b>	=	

**Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS Than 9 Months\***

C1. Student's contribution from AI (standard contribution for 9-month enrollment, from line 44)		
C2. Divide by 9	÷	<b>9</b>
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	X	
<b>C5. Student's contribution from AI for LESS than 9-month enrollment</b>	=	

\*For students enrolled more than 9 months, the standard contribution from AI is used (the amount from line 44).

**Use next page to calculate total EFC for enrollment periods other than 9 months**



**Calculation of Total Expected Family Contribution for Periods of Enrollment Other Than 9 Months**

<b>Parents' Contribution—use ONE appropriate amount from previous page:</b> • Enter amount from line A5 for enrollment periods less than 9 months <b>OR</b> • Enter amount from line B14 for enrollment periods greater than 9 months	
<b>Student's Contribution from Available Income—use ONE appropriate amount from previous page:</b> • Enter amount from line C5 for enrollment periods less than 9 months <b>OR</b> + • Enter amount from line 44 for enrollment periods greater than 9 months	
<b>Student's Contribution from Assets</b> • Enter amount from line 50 +	
<b>Expected Family Contribution for periods of enrollment other than 9 months</b> =	



# 2005-2006 EFC FORMULA **A**: DEPENDENT STUDENT

SIMPLIFIED  
WORKSHEET  
Page 1

**A**

PARENTS' INCOME IN 2004	
1. Parents' Adjusted Gross Income (FAFSA/SAR #73) (If negative, enter zero.)	
2. a. Father's/stepfather's income earned from work from work (FAFSA/SAR #76)	
2. b. Mother's/stepmother's income earned from work (FAFSA/SAR #77) +	
Total parents' income earned from work =	
3. Parents' Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #78)	
• Total from FAFSA Worksheet B (FAFSA/SAR #79) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #80) -	
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST PARENTS' INCOME	
8. 2004 U.S. income tax paid (FAFSA/SAR #74) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table A1. If negative, enter zero.) +	
10. Father's Social Security tax allow. (Table A2) +	
11. Mother's Social Security tax allow. (Table A2) +	
12. Income protection allowance (Table A3) +	
13. Employment expense allowance:	
• Two working parents: 35% of the lesser of the earned incomes, or \$3,000, whichever is less	
• One-parent families: 35% of earned income, or \$3,000, whichever is less	
• Two-parent families, one working parent: enter zero +	
14. <b>TOTAL ALLOWANCES</b> =	

AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) -	
15. <b>AVAILABLE INCOME (AI)</b> May be a negative number. =	

\*STOP HERE if **both** of the following are true: line 3 is \$15,000 or less, **plus** the student **and** parents are eligible to file a 2004 IRS Form 1040A or 1040EZ (they are not required to file a 2004 Form 1040), or they are not required to file any income tax return. If both circumstances are true, the Expected Family Contribution is automatically zero.

PARENTS' CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #81)	
17. Net worth of investments** (FAFSA/SAR #82) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #83) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table A4.) +	
20. <b>Net worth</b> (sum of lines 16, 17, and 19) =	
21. Education savings and asset protection allowance (Table A5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate X	<b>A1</b>
24. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero. =	

PARENTS' CONTRIBUTION	
Available Income (AI) (from line 15)	
Contribution from assets (from line 24) +	
25. <b>Adjusted Available Income (AAI)</b> May be a negative number. =	
26. <b>Total parents' contribution from AAI</b> (Calculate using Table A6; if negative, enter zero.)	
27. <b>Number in college in 2005-2006</b> (Exclude parents) (FAFSA/SAR #66) ÷	
28. <b>PARENTS' CONTRIBUTION</b> (standard contribution for 9-month enrollment)*** =	

\*\*Do *not* include the family's home.

\*\*\*To calculate the parents' contribution for other than 9-month enrollment, see page 15.

**Note: Do not complete the shaded areas; asset information is not required in the simplified formula.**

continued on reverse



## STUDENT'S INCOME IN 2004

29. Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.)	
30. Income earned from work (FAFSA/SAR #38)	
31. Taxable Income (If tax filer, enter the amount from line 29. If non-tax filer, enter the amount from line 30.)	
32. Untaxed income and benefits:	
Total from FAFSA Worksheet A (FAFSA/SAR #40)	
Total from FAFSA Worksheet B (FAFSA/SAR #41)	
Total untaxed income and benefits	
33. Taxable and untaxed income (sum of line 31 and line 32)	
34. Total from FAFSA Worksheet C (FAFSA/SAR #42)	-
35. TOTAL INCOME (line 33 minus line 34) May be a negative number.	=

## ALLOWANCES AGAINST STUDENT INCOME

36. 2004 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero.	
37. State and other tax allowance (Table A7. If negative, enter zero.)	+
38. Social Security tax allowance (Table A2)	+
39. Income protection allowance	+
40. Allowance for parents' negative Adjusted Available Income (If line 25 is negative, enter line 25 as a positive number in line 40. If line 25 is zero or positive, enter zero in line 40.)	+
41. TOTAL ALLOWANCES	=

## STUDENT'S CONTRIBUTION FROM INCOME

Total income (from line 35)	
Total allowances (from line 41)	-
42. Available income (AI)	=
43. Assessment of AI	X
44. STUDENT'S CONTRIBUTION FROM AI If negative, enter zero.	=

## STUDENT'S CONTRIBUTION FROM ASSETS

45. Cash, savings & checking (FAFSA/SAR #43)	+
46. Net worth of investments* (FAFSA/SAR #44) If negative, enter zero.	
47. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	+
48. Net worth (sum of lines 45 through 47)	=
49. Assessment rate	X
50. STUDENT'S CONTRIBUTION FROM ASSETS	=

## EXPECTED FAMILY CONTRIBUTION

PARENTS' CONTRIBUTION (from line 28)	
STUDENT'S CONTRIBUTION FROM AI (from line 44)	+
STUDENT'S CONTRIBUTION FROM ASSETS (from line 50)	+
51. EXPECTED FAMILY CONTRIBUTION standard contribution for 9-month enrollment** (If negative, enter zero.)	=

\*Do not include the student's home.

\*\*To calculate the EFC for other than 9-month enrollment,  
see the next page.

**Note: Do not complete the shaded areas;  
asset information is not required in the  
simplified formula.**



**Note:** Use this additional page to prorate the EFC only if the student will be enrolled for other than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford/Ford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

**Calculation of Parents' Contribution for a Student Enrolled LESS Than 9 Months**

A1. Parents' contribution (standard contribution for 9-month enrollment, from line 28)		
A2. Divide by 9	÷	<b>9</b>
A3. Parents' contribution per month	=	
A4. Multiply by number of months of enrollment	<b>X</b>	
<b>A5. Parents' contribution for LESS than 9-month enrollment</b>	=	

**Calculation of Parents' Contribution for a Student Enrolled MORE Than 9 Months**

B1. Parents' Adjusted Available Income (AAI) (from line 25—may be a negative number)		
B2. Difference between the income protection allowance for a family of four and a family of five, with one in college	+	<b>3,830</b>
B3. Alternate parents' AAI for more than 9-month enrollment (line B1 + line B2)	=	
B4. Total parents' contribution from alternate AAI (calculate using Table A6)		
B5. Number in college (FAFSA/SAR #66)	÷	
B6. Alternate parents' contribution for student (line B4 divided by line B5)	=	
B7. Standard parents' contribution for the student for 9-month enrollment (from line 28)	-	
B8. Difference (line B6 minus line B7)	=	
B9. Divide line B8 by 12 months	÷	<b>12</b>
B10. Parents' contribution per month	=	
B11. Number of months student will be enrolled that exceed 9	<b>X</b>	
B12. Adjustment to parents' contribution for months that exceed 9 (multiply line B10 by line B11)	=	
B13. Standard parents' contribution for 9-month enrollment (from line 28)	+	
<b>B14. Parents' contribution for MORE than 9-month enrollment</b>	=	

**Calculation of Student's Contribution from Available Income (AI) for a Student Enrolled LESS Than 9 Months\***

C1. Student's contribution from AI (standard contribution for 9-month enrollment, from line 44)		
C2. Divide by 9	÷	<b>9</b>
C3. Student's contribution from AI per month	=	
C4. Multiply by number of months of enrollment	<b>X</b>	
<b>C5. Student's contribution from AI for LESS than 9-month enrollment</b>	=	

\*For students enrolled more than 9 months, the standard contribution from AI is used (the amount from line 44).

**Use next page to calculate total EFC for enrollment periods other than 9 months**



**Calculation of Total Expected Family Contribution for Periods of Enrollment Other Than 9 Months**

<b>Parents' Contribution—use ONE appropriate amount from previous page:</b> <ul style="list-style-type: none"><li>• Enter amount from line A5 for enrollment periods less than 9 months <b>OR</b></li><li>• Enter amount from line B14 for enrollment periods greater than 9 months</li></ul>	
<b>Student's Contribution from Available Income—use ONE appropriate amount from previous page:</b> <ul style="list-style-type: none"><li>• Enter amount from line C5 for enrollment periods less than 9 months <b>OR</b></li><li>• Enter amount from line 44 for enrollment periods greater than 9 months</li></ul>	+
<b>Expected Family Contribution for periods of enrollment other than 9 months</b>	=



# Table A1: State and Other Tax Allowance

for EFC Formula Worksheet A (parents only)

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	\$0-14,999	\$15,000 or more		\$0-14,999	\$15,000 or more
Alabama .....	3%	2%	Missouri .....	4%	3%
Alaska .....	2%	1%	Montana .....	5%	4%
American Samoa .....	3%	2%	Nebraska .....	5%	4%
Arizona .....	4%	3%	Nevada .....	2%	1%
Arkansas .....	3%	2%	New Hampshire .....	4%	3%
California .....	7%	6%	New Jersey .....	8%	7%
Canada and Canadian			New Mexico .....	4%	3%
Provinces .....	3%	2%	New York .....	8%	7%
Colorado .....	4%	3%	North Carolina .....	6%	5%
Connecticut .....	7%	6%	North Dakota .....	2%	1%
Delaware .....	4%	3%	Northern Mariana		
District of Columbia .....	7%	6%	Islands .....	3%	2%
Federated States			Ohio .....	6%	5%
of Micronesia .....	3%	2%	Oklahoma .....	4%	3%
Florida .....	2%	1%	Oregon .....	7%	6%
Georgia .....	5%	4%	Palau .....	3%	2%
Guam .....	3%	2%	Pennsylvania .....	5%	4%
Hawaii .....	4%	3%	Puerto Rico .....	3%	2%
Idaho .....	5%	4%	Rhode Island .....	7%	6%
Illinois .....	5%	4%	South Carolina .....	5%	4%
Indiana .....	4%	3%	South Dakota .....	1%	0%
Iowa .....	5%	4%	Tennessee .....	1%	0%
Kansas .....	5%	4%	Texas .....	2%	1%
Kentucky .....	5%	4%	Utah .....	5%	4%
Louisiana .....	2%	1%	Vermont .....	6%	5%
Maine .....	6%	5%	Virgin Islands .....	3%	2%
Marshall Islands .....	3%	2%	Virginia .....	5%	4%
Maryland .....	7%	6%	Washington .....	2%	1%
Massachusetts .....	6%	5%	West Virginia .....	3%	2%
Mexico .....	3%	2%	Wisconsin .....	7%	6%
Michigan .....	5%	4%	Wyoming .....	1%	0%
Minnesota .....	6%	5%	Blank or Invalid		
Mississippi .....	3%	2%	State .....	3%	2%
			OTHER .....	3%	2%

Multiply Parents' Total Income (EFC Formula Worksheet A, line 7) by the appropriate rate from the table above to get the "State and Other Tax Allowance" (EFC Formula Worksheet A, line 9). Use the parents' State of Legal Residence (FAFSA/SAR #67). If this item is blank or invalid, use the student's State of Legal Residence (FAFSA/SAR #18). If both items are blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If all three items are blank or invalid, use the rate for a blank or invalid state above.



**Table A2: Social Security Tax**

Calculate separately the Social Security tax of father, mother, and student.

Income Earned from Work*	Social Security Tax
\$0 - \$87,900	7.65% of income
\$87,901 or greater	\$6,724.35 + 1.45% of amount over \$87,900

\*Father's/stepfather's 2004 income earned from work is FAFSA/SAR #76.  
 Mother's/stepmother's 2004 income earned from work is FAFSA/SAR #77.  
 Student's 2004 income earned from work is FAFSA/SAR #38.  
 Social Security tax will never be less than zero.

**Table A3: Income Protection Allowance**

Number in parents' household, including student (FAFSA/SAR #65)	Number of college students in household (FAFSA/SAR #66)				
	1	2	3	4	5
2 .....	\$13,870	\$11,490	————	————	————
3 .....	17,270	14,910	\$12,530	————	————
4 .....	21,330	18,950	16,590	\$14,220	————
5 .....	25,160	22,790	20,430	18,060	\$15,700
6 .....	29,430	27,060	24,700	22,330	19,970

Note: For each additional family member, add \$3,320.  
 For each additional college student (except parents), subtract \$2,360.

**Table A4: Business/Farm Net Worth Adjustment**

for EFC Formula Worksheet A (parents only)

If the net worth of a business or farm is—	Then the adjusted net worth is—			
Less than \$1	\$0			
\$1 to \$100,000	40% of net worth of business/farm			
\$100,001 to \$295,000	\$ 40,000	+	50%	of net worth over \$100,000
\$295,001 to \$495,000	\$137,500	+	60%	of net worth over \$295,000
\$495,001 or more	\$257,500	+	100%	of net worth over \$495,000



**Table A5: Education Savings and Asset Protection Allowance**  
for EFC Formula Worksheet A (parents only)

<i>Age of older parent as of 12/31/2005*</i>	Allowance if there are two parents	Allowance if there is only one parent	<i>Age of older parent as of 12/31/2005*</i>	Allowance if there are two parents	Allowance if there is only one parent
25 or less..	0	0	45 .....	37,700	14,800
26 .....	2,200	900	46 .....	38,600	15,200
27 .....	4,400	1,800	47 .....	39,600	15,500
28 .....	6,700	2,700	48 .....	40,500	15,900
29 .....	8,900	3,500	49 .....	41,500	16,200
30 .....	11,100	4,400	50 .....	42,800	16,600
31 .....	13,300	5,300	51 .....	43,900	17,000
32 .....	15,500	6,200	52 .....	44,900	17,400
33 .....	17,800	7,100	53 .....	46,300	17,800
34 .....	20,000	8,000	54 .....	47,400	18,300
35 .....	22,200	8,900	55 .....	48,900	18,700
36 .....	24,400	9,800	56 .....	50,000	19,100
37 .....	26,600	10,600	57 .....	51,500	19,700
38 .....	28,900	11,500	58 .....	53,100	20,100
39 .....	31,100	12,400	59 .....	54,600	20,700
40 .....	33,300	13,300	60 .....	56,200	21,200
41 .....	34,100	13,600	61 .....	57,800	21,800
42 .....	35,000	13,900	62 .....	59,500	22,400
43 .....	35,900	14,200	63 .....	61,500	23,000
44 .....	36,700	14,500	64 .....	63,300	23,700
			65 or over ..	65,400	24,300

\*Determine the age of the older parent listed in FAFSA/SAR #60 and #64 as of 12/31/05.  
If no parent date of birth is provided, use age 45.

**Table A6: Parents' Contribution from AAI**

<b>If parents' AAI is—</b>	<b>The parents' contribution from AAI is—</b>
Less than -\$3,409	-\$750
-\$3,409 to \$12,400	22% of AAI
\$12,401 to \$15,600	\$2,728 + 25% of AAI over \$12,400
\$15,601 to \$18,700	\$3,528 + 29% of AAI over \$15,600
\$18,701 to \$21,900	\$4,427 + 34% of AAI over \$18,700
\$21,901 to \$25,000	\$5,515 + 40% of AAI over \$21,900
\$25,001 or more	\$6,755 + 47% of AAI over \$25,000



**Table A7: State and Other Tax Allowance**  
for EFC Formula Worksheet A (student only)

Alabama .....	2%	Missouri .....	3%
Alaska .....	0%	Montana .....	3%
American Samoa .....	2%	Nebraska .....	3%
Arizona .....	2%	Nevada .....	1%
Arkansas .....	3%	New Hampshire .....	1%
California .....	5%	New Jersey .....	4%
Canada and Canadian		New Mexico .....	3%
Provinces .....	2%	New York .....	5%
Colorado .....	3%	North Carolina .....	4%
Connecticut .....	4%	North Dakota .....	1%
Delaware .....	3%	Northern Mariana Islands .....	2%
District of Columbia .....	6%	Ohio .....	4%
Federated States		Oklahoma .....	3%
of Micronesia .....	2%	Oregon .....	5%
Florida .....	0%	Palau .....	2%
Georgia .....	3%	Pennsylvania .....	3%
Guam .....	2%	Puerto Rico .....	2%
Hawaii .....	4%	Rhode Island .....	4%
Idaho .....	3%	South Carolina .....	3%
Illinois .....	2%	South Dakota .....	0%
Indiana .....	3%	Tennessee .....	0%
Iowa .....	3%	Texas .....	0%
Kansas .....	3%	Utah .....	4%
Kentucky .....	4%	Vermont .....	3%
Louisiana .....	2%	Virgin Islands .....	2%
Maine .....	4%	Virginia .....	3%
Marshall Islands .....	2%	Washington .....	0%
Maryland .....	5%	West Virginia .....	2%
Massachusetts .....	4%	Wisconsin .....	4%
Mexico .....	2%	Wyoming .....	0%
Michigan .....	3%	Blank or Invalid State .....	2%
Minnesota .....	4%	OTHER .....	2%
Mississippi .....	2%		

Multiply the student's total income (EFC Formula Worksheet A, line 35) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet A, line 37). Use the student's *state of legal residence* (FAFSA/SAR #18). If this item is blank or invalid, use the *state* in the student's mailing address (FAFSA/SAR #6). If both items are blank or invalid, use the parents' *state of legal residence* (FAFSA/SAR #67). If all three items are blank or invalid, use the rate for a blank or invalid state above.



**2005-2006 EFC FORMULA **B**: INDEPENDENT STUDENT**  
**Without Dependent(s) Other Than a Spouse**

REGULAR  
WORKSHEET  
Page 1

**B**

STUDENT/SPOUSE INCOME IN 2004	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.)	
2. a. Student's income earned from work (FAFSA/SAR#38)	
2. b. Spouse's income earned from work (FAFSA/SAR#39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR#40)	
• Total from FAFSA Worksheet B (FAFSA/SAR#41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2004 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table B1. If negative, enter zero.) +	
10. Student's Social Security tax (Table B2) +	
11. Spouse's Social Security tax (Table B2) +	
12. Income protection allowance:	
• \$5,560 for unmarried or separated student;	
• \$5,560 for married student if spouse is enrolled at least 1/2 time;	
• \$8,890 for married student if spouse is not enrolled at least 1/2 time. +	
13. Employment expense allowance:	
• If student is not married or is separated, the allowance is zero.	
• If student is married but only one person is working (the student or spouse), the allowance is zero.	
• If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or \$3,000, whichever is less. +	
14. <b>TOTAL ALLOWANCES</b> =	

CONTRIBUTION FROM AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) -	
15. <b>AVAILABLE INCOME (AI)</b> =	
16. Assessment rate X	.50
17. <b>CONTRIBUTION FROM AI</b> = May be a negative number.	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
18. Cash, savings & checking (FAFSA/SAR #43)	
19. Net worth of investments* (FAFSA/SAR#44) If negative, enter zero.	
20. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	
21. Adjusted net worth of business/farm (Calculate using Table B3.) +	
22. <b>Net worth</b> (sum of lines 18, 19, and 21) =	
23. Asset protection allowance (Table B4) -	
24. Discretionary net worth (line 22 minus line 23) =	
25. Asset conversion rate X	.35
26. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
Contribution from AI (from line 17) May be a negative number.	
Contribution from assets (from line 26) +	
27. <b>Contribution from AI and assets</b> =	
28. <b>Number in college in 2005-2006</b> (FAFSA/SAR#85) ÷	
29. <b>EXPECTED FAMILY CONTRIBUTION</b> for 9-month enrollment (If negative, enter zero.)** =	

\*Do not include the student's home.

\*\*To calculate the EFC for less than 9-month enrollment, see the next page. If the student is enrolled for more than 9 months, use the 9-month EFC (line 29 above).



**Note:** Use this additional page to prorate the EFC only if the student will be enrolled for less than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford/Ford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Expected Family Contribution for a Student Enrolled for Less Than 9 Months		
Expected Family Contribution (standard contribution for 9-month enrollment, from line 29)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	X	
Expected Family Contribution for less than 9-month enrollment*	=	

\*Substitute the student's EFC for less than 9-month enrollment in place of the EFC for the standard 9-month enrollment (EFC Formula Worksheet B, line 29).



**2005-2006 EFC FORMULA **B**: INDEPENDENT STUDENT**  
**Without Dependent(s) Other Than a Spouse**

SIMPLIFIED  
WORKSHEET  
Page 1

**B**

STUDENT/SPOUSE INCOME IN 2004	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.)	
2. a. Student's income earned from work (FAFSA/SAR #38)	
2. b. Spouse's income earned from work (FAFSA/SAR #39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #40)	
• Total from FAFSA Worksheet B (FAFSA/SAR #41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2004 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table B1. If negative, enter zero.) +	
10. Student's Social Security tax (Table B2) +	
11. Spouse's Social Security tax (Table B2) +	
12. Income protection allowance:	
• \$5,560 for unmarried or separated student;	
• \$5,560 for married student if spouse is enrolled at least 1/2 time;	
• \$8,890 for married student if only the student is enrolled at least 1/2 time. +	
13. Employment expense allowance:	
• If student is not married or is separated, the allowance is zero.	
• If student is married but only one person is working (the student or spouse), the allowance is zero.	
• If student is married and both student and spouse are working, the allowance is 35% of the lesser of the earned incomes, or \$3,000, whichever is less. +	
14. <b>TOTAL ALLOWANCES</b> =	

CONTRIBUTION FROM AVAILABLE INCOME	
Total income (from line 7)	
Total allowances (from line 14) -	
15. <b>AVAILABLE INCOME (AI)</b> =	
16. Assessment rate X	.50
17. <b>CONTRIBUTION FROM AI</b> = May be a negative number.	

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
18. Cash, savings & checking (FAFSA/SAR #43)	
19. Net worth of investments* (FAFSA/SAR #44) If negative, enter zero.	
20. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	
21. Adjusted net worth of business/farm (Calculate using Table B3.) +	
22. <b>Net worth</b> (sum of lines 18, 19, and 21) =	
23. Asset protection allowance (Table B4) -	
24. Discretionary net worth (line 22 minus line 23) =	
25. Asset conversion rate X	.35
26. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
Contribution from AI (from line 17) May be a negative number.	
Contribution from assets (from line 26) +	
27. <b>Contribution from AI and assets</b> =	
28. <b>Number in college in 2005-2006</b> (FAFSA/SAR #85) ÷	
29. <b>EXPECTED FAMILY CONTRIBUTION</b> for 9-month enrollment (If negative, enter zero.)** =	

\*Do not include the student's home.

\*\*To calculate the EFC for less than 9-month enrollment, see the next page. If the student is enrolled for more than 9 months, use the 9-month EFC (line 29 above).

**Note: Do not complete the shaded areas; asset information is not required in the simplified formula.**



**Note:** Use this additional page to prorate the EFC only if the student will be enrolled for less than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford/Ford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

SIMPLIFIED  
WORKSHEET  
Page 2

**B**

Calculation of Expected Family Contribution for a Student Enrolled for Less Than 9 Months		
Expected Family Contribution (standard contribution for 9-month enrollment, from line 29)		
Divide by 9	÷	<b>9</b>
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	X	
<b>Expected Family Contribution for less than 9-month enrollment*</b>	=	

\*Substitute the student's EFC for less than 9-month enrollment in place of the EFC for the standard 9-month enrollment (EFC Formula Worksheet B, line 29).



**Table B1: State and Other Tax Allowance**

Alabama .....	2%	Missouri .....	3%
Alaska .....	0%	Montana .....	3%
American Samoa .....	2%	Nebraska .....	3%
Arizona .....	2%	Nevada .....	1%
Arkansas .....	3%	New Hampshire .....	1%
California .....	5%	New Jersey .....	4%
Canada and Canadian		New Mexico .....	3%
Provinces .....	2%	New York .....	5%
Colorado .....	3%	North Carolina .....	4%
Connecticut .....	4%	North Dakota .....	1%
Delaware .....	3%	Northern Mariana Islands .....	2%
District of Columbia .....	6%	Ohio .....	4%
Federated States		Oklahoma .....	3%
of Micronesia .....	2%	Oregon .....	5%
Florida .....	0%	Palau .....	2%
Georgia .....	3%	Pennsylvania .....	3%
Guam .....	2%	Puerto Rico .....	2%
Hawaii .....	4%	Rhode Island .....	4%
Idaho .....	3%	South Carolina .....	3%
Illinois .....	2%	South Dakota .....	0%
Indiana .....	3%	Tennessee .....	0%
Iowa .....	3%	Texas .....	0%
Kansas .....	3%	Utah .....	4%
Kentucky .....	4%	Vermont .....	3%
Louisiana .....	2%	Virgin Islands .....	2%
Maine .....	4%	Virginia .....	3%
Marshall Islands .....	2%	Washington .....	0%
Maryland .....	5%	West Virginia .....	2%
Massachusetts .....	4%	Wisconsin .....	4%
Mexico .....	2%	Wyoming .....	0%
Michigan .....	3%	Blank or Invalid State .....	2%
Minnesota .....	4%	OTHER .....	2%
Mississippi .....	2%		

Multiply the total income of student and spouse (EFC Formula Worksheet B, line 7) by the appropriate rate from the table above to get the “state and other tax allowance” (EFC Formula Worksheet B, line 9). Use the student’s State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student’s Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use rate for blank or invalid state above.



**Table B2: Social Security Tax**

Calculate separately the Social Security tax of student and spouse.

<b>Income Earned from Work*</b>	<b>Social Security Tax</b>
\$0 - \$87,900	7.65% of income
\$87,901 or greater	\$6,724.35 + 1.45% of amount over \$87,900

\*Student's 2004 income earned from work is FAFSA/SAR #38.

Spouse's 2004 income earned from work is FAFSA/SAR #39.

Social Security tax will never be less than zero.

**Table B3: Business/Farm Net Worth Adjustment**

<b>If the net worth of a business or farm is—</b>	<b>Then the adjusted net worth is—</b>
Less than \$1	\$0
\$1 to \$100,000	40% of net worth of business/farm
\$100,001 to \$295,000	\$ 40,000 + 50% of net worth over \$100,000
\$295,001 to \$495,000	\$137,500 + 60% of net worth over \$295,000
\$495,001 or more	\$257,500 + 100% of net worth over \$495,000



**Table B4**  
**Asset Protection Allowance**

Age of student as of 12/31/05*	Allowance for—	
	Married Student	Unmarried Student
25 or less.. .	0	0
26 .....	2,200	900
27 .....	4,400	1,800
28 .....	6,700	2,700
29 .....	8,900	3,500
30 .....	11,100	4,400
31 .....	13,300	5,300
32 .....	15,500	6,200
33 .....	17,800	7,100
34 .....	20,000	8,000
35 .....	22,200	8,900
36 .....	24,400	9,800
37 .....	26,600	10,600
38 .....	28,900	11,500
39 .....	31,100	12,400
40 .....	33,300	13,300
41 .....	34,100	13,600
42 .....	35,000	13,900
43 .....	35,900	14,200
44 .....	36,700	14,500
45 .....	37,700	14,800
46 .....	38,600	15,200
47 .....	39,600	15,500
48 .....	40,500	15,900
49 .....	41,500	16,200
50 .....	42,800	16,600
51 .....	43,900	17,000
52 .....	44,900	17,400
53 .....	46,300	17,800
54 .....	47,400	18,300
55 .....	48,900	18,700
56 .....	50,000	19,100
57 .....	51,500	19,700
58 .....	53,100	20,100
59 .....	54,600	20,700
60 .....	56,200	21,200
61 .....	57,800	21,800
62 .....	59,500	22,400
63 .....	61,500	23,000
64 .....	63,300	23,700
65 or over ..	65,400	24,300

\*Determine student's age as of 12/31/05 from student's date of birth (FAFSA/SAR #9)







**2005-2006 EFC FORMULA **C** : INDEPENDENT STUDENT**  
**With Dependent(s) Other Than a Spouse**

REGULAR  
WORKSHEET  
Page 1

**C**

STUDENT/SPOUSE INCOME IN 2004	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.)	
2. a. Student's income earned from work (FAFSA/SAR#38)	
2. b. Spouse's income earned from work (FAFSA/SAR#39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR#40)	
• Total from FAFSA Worksheet B (FAFSA/SAR#41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2004 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table C1. If negative, enter zero.) +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	
12. Income protection allowance (Table C3) +	
13. Employment expense allowance:	
• Student and spouse both working: 35% of the lesser of the earned incomes, or \$3,000, whichever is less	
• One-parent families: 35% of earned income, or \$3,000, whichever is less	
• Student or spouse working (not both): zero +	
14. <b>TOTAL ALLOWANCES</b> =	

AVAILABLE INCOME	
<b>Total income</b> (from line 7)	
<b>Total allowances</b> (from line 14) -	
15. <b>AVAILABLE INCOME (AI)</b> May be a negative number. =	

\*STOP HERE if **both** of the following are true: line 3 is \$15,000 or less, **and** the student and spouse are eligible to file a 2004 IRS Form 1040A or 1040EZ (they are not required to file a 2004 Form 1040), or they are not required to file any income tax return. Under these circumstances, the student's EFC is zero.

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #43)	
17. Net worth of investments** (FAFSA/SAR#44) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR#45) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. <b>Net worth</b> (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate X	.12
24. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
<b>Available Income (AI)</b> (from line 15)	
<b>Contribution from assets</b> (from line 24) +	
25. <b>Adjusted Available Income (AAI)</b> May be a negative number. =	
26. <b>Total contribution from AAI</b> (Calculate using Table C6; if negative, enter zero.)	
27. <b>Number in college in 2005-2006</b> (FAFSA/SAR#85) ÷	
28. <b>EXPECTED FAMILY CONTRIBUTION</b> for 9-month enrollment (If negative, enter zero.)***	

\*\*Do not include the student's home.

\*\*\*To calculate the EFC for less than 9-month enrollment, see the next page. If the student is enrolled for more than 9 months, use the 9-month EFC (line 28 above).



**Note:** Use this additional page to prorate the EFC only if the student will be enrolled for less than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford/Ford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

**Calculation of Expected Family Contribution for a Student Enrolled for Less Than 9 Months**

Expected Family Contribution (standard contribution for 9-month enrollment, from line 28)		
Divide by 9	÷	<b>9</b>
Expected Family Contribution per month	=	
Multiply by number of months of enrollment	X	
<b>Expected Family Contribution for less than 9-month enrollment*</b>	=	

\*Substitute the student's EFC for less than 9-month enrollment in place of the EFC for the standard 9-month enrollment (EFC Formula Worksheet C, line 28).



**2005-2006 EFC FORMULA **C**: INDEPENDENT STUDENT**  
**With Dependent(s) Other Than a Spouse**

SIMPLIFIED  
WORKSHEET  
Page 1

**C**

STUDENT/SPOUSE INCOME IN 2004	
1. Student's and spouse's Adjusted Gross Income (FAFSA/SAR #35) (If negative, enter zero.)	
2. a. Student's income earned from work (FAFSA/SAR #38)	
2. b. Spouse's income earned from work (FAFSA/SAR #39) +	
Total student/spouse income earned from work =	
3. Student/spouse Taxable Income (If tax filers, enter the amount from line 1 above. If non-tax filers, enter the amount from line 2.)*	
4. Untaxed income and benefits:	
• Total from FAFSA Worksheet A (FAFSA/SAR #40)	
• Total from FAFSA Worksheet B (FAFSA/SAR #41) +	
Total untaxed income and benefits =	
5. Taxable and untaxed income (sum of line 3 and line 4)	
6. Total from FAFSA Worksheet C (FAFSA/SAR #42) -	
7. <b>TOTAL INCOME</b> (line 5 minus line 6) May be a negative number. =	

ALLOWANCES AGAINST STUDENT/SPOUSE INCOME	
8. 2004 U.S. income tax paid (FAFSA/SAR #36) (tax filers only); if negative, enter zero.	
9. State and other tax allowance (Table C1. If negative, enter zero.) +	
10. Student's Social Security tax (Table C2) +	
11. Spouse's Social Security tax (Table C2) +	
12. Income protection allowance (Table C3) +	
13. Employment expense allowance:	
• Student and spouse both working: 35% of the lesser of the earned incomes, or \$3,000, whichever is less	
• One-parent families: 35% of earned income, or \$3,000, whichever is less	
• Student or spouse working (not both): zero +	
14. <b>TOTAL ALLOWANCES</b> =	

AVAILABLE INCOME	
<b>Total income</b> (from line 7)	
<b>Total allowances</b> (from line 14) -	
15. <b>AVAILABLE INCOME (AI)</b> May be a negative number. =	

\*STOP HERE if **both** of the following are true: line 3 is \$15,000 or less, **and** the student and spouse are eligible to file a 2004 IRS Form 1040A or 1040EZ (they are not required to file a 2004 Form 1040), or they are not required to file any income tax return. Under these circumstances, the student's EFC is zero.

STUDENT'S/SPOUSE'S CONTRIBUTION FROM ASSETS	
16. Cash, savings & checking (FAFSA/SAR #43)	
17. Net worth of investments** (FAFSA/SAR #44) If negative, enter zero.	
18. Net worth of business and/or investment farm (FAFSA/SAR #45) If negative, enter zero.	
19. Adjusted net worth of business/farm (Calculate using Table C4.) +	
20. <b>Net worth</b> (sum of lines 16, 17, and 19) =	
21. Asset protection allowance (Table C5) -	
22. Discretionary net worth (line 20 minus line 21) =	
23. Asset conversion rate X	.12
24. <b>CONTRIBUTION FROM ASSETS</b> If negative, enter zero.	

EXPECTED FAMILY CONTRIBUTION	
<b>Available income (AI)</b> (from line 15)	
<b>Contribution from assets</b> (from line 24) +	
25. <b>Adjusted available income (AAI)</b> May be a negative number. =	
26. <b>Total contribution from AAI</b> (Calculate using Table C6; if negative, enter zero.)	
27. <b>Number in college in 2005-2006</b> (FAFSA/SAR #85) ÷	
28. <b>EXPECTED FAMILY CONTRIBUTION</b> for 9-month enrollment (If negative, enter zero.)***	

\*\*Do not include the student's home.

\*\*\*To calculate the EFC for less than 9-month enrollment, see the next page. If the student is enrolled for more than 9 months, use the 9-month EFC (line 28 above).

**Note: Do not complete the shaded areas; asset information is not required in the simplified formula.**



**Note:** Use this additional page to prorate the EFC only if the student will be enrolled for less than 9 months and only to determine the student's need for campus-based aid, a subsidized Federal Stafford Loan, or a subsidized Federal Direct Stafford/Ford Loan. Do not use this page to prorate the EFC for a Federal Pell Grant. The EFC for the Federal Pell Grant Program is the 9-month EFC used in conjunction with the cost of attendance to determine a Federal Pell Grant award from the Payment or Disbursement Schedule.

Calculation of Expected Family Contribution for a Student Enrolled for Less Than 9 Months		
Expected Family Contribution (standard contribution for 9-month enrollment, from line 28)		
Divide by 9	÷	9
Expected Family Contribution per month	=	
Multiply by number of months enrollment	X	
Expected Family Contribution for less than 9-month enrollment*	=	

\*Substitute the student's EFC for less than 9-month enrollment in place of the EFC for the standard 9-month enrollment (EFC Formula Worksheet C, line 28).



**Table C1: State and Other Tax Allowance**

STATE	PERCENT OF TOTAL INCOME		STATE	PERCENT OF TOTAL INCOME	
	\$0-14,999	\$15,000 or more		\$0-14,999	\$15,000 or more
Alabama .....	3%	2%	Missouri .....	4%	3%
Alaska .....	2%	1%	Montana .....	5%	4%
American Samoa .....	3%	2%	Nebraska .....	5%	4%
Arizona .....	4%	3%	Nevada .....	2%	1%
Arkansas .....	3%	2%	New Hampshire .....	4%	3%
California .....	7%	6%	New Jersey .....	8%	7%
Canada and Canadian			New Mexico .....	4%	3%
Provinces .....	3%	2%	New York .....	8%	7%
Colorado .....	4%	3%	North Carolina .....	6%	5%
Connecticut .....	7%	6%	North Dakota .....	2%	1%
Delaware .....	4%	3%	Northern Mariana		
District of Columbia .....	7%	6%	Islands .....	3%	2%
Federated States			Ohio .....	6%	5%
of Micronesia .....	3%	2%	Oklahoma .....	4%	3%
Florida .....	2%	1%	Oregon .....	7%	6%
Georgia .....	5%	4%	Palau .....	3%	2%
Guam .....	3%	2%	Pennsylvania .....	5%	4%
Hawaii .....	4%	3%	Puerto Rico .....	3%	2%
Idaho .....	5%	4%	Rhode Island .....	7%	6%
Illinois .....	5%	4%	South Carolina .....	5%	4%
Indiana .....	4%	3%	South Dakota .....	1%	0%
Iowa .....	5%	4%	Tennessee .....	1%	0%
Kansas .....	5%	4%	Texas .....	2%	1%
Kentucky .....	5%	4%	Utah .....	5%	4%
Louisiana .....	2%	1%	Vermont .....	6%	5%
Maine .....	6%	5%	Virgin Islands .....	3%	2%
Marshall Islands .....	3%	2%	Virginia .....	5%	4%
Maryland .....	7%	6%	Washington .....	2%	1%
Massachusetts .....	6%	5%	West Virginia .....	3%	2%
Mexico .....	3%	2%	Wisconsin .....	7%	6%
Michigan .....	5%	4%	Wyoming .....	1%	0%
Minnesota .....	6%	5%	Blank or Invalid		
Mississippi .....	3%	2%	State .....	3%	2%
			OTHER .....	3%	2%

Multiply the total income of student and spouse (EFC Formula Worksheet C, line 7) by the appropriate rate from the table above to get the "state and other tax allowance" (EFC Formula Worksheet C, line 9). Use the student's State of Legal Residence (FAFSA/SAR #18) reported on the FAFSA. If this item is blank or invalid, use the State in the Student's Mailing Address (FAFSA/SAR #6). If both items are blank or invalid, use the rate for blank or invalid state above.



**Table C2: Social Security Tax**

Calculate separately the Social Security tax of student and spouse.

**Income Earned from Work\*****Social Security Tax**

\$0 - \$87,900

7.65% of income

\$87,901 or greater

\$6,724.35 + 1.45% of amount over \$87,900

\*Student's 2004 income earned from work is FAFSA/SAR #38.

Spouse's 2004 income earned from work is FAFSA/SAR #39.

Social Security tax will never be less than zero.

**Table C3: Income Protection Allowance**

Number in student's household, including student (FAFSA/SAR #84)	Number of college students in household (FAFSA/SAR #85)				
	1	2	3	4	5
2 . . . . .	\$13,870	\$11,490	—	—	—
3 . . . . .	17,270	14,910	\$12,530	—	—
4 . . . . .	21,330	18,950	16,590	\$14,220	—
5 . . . . .	25,160	22,790	20,430	18,060	\$15,700
6 . . . . .	29,430	27,060	24,700	22,330	19,970

Note: For each additional family member, add \$3,320.  
For each additional college student, subtract \$2,360.

**Table C4: Business/Farm Net Worth Adjustment****If the net worth of a business or farm is—****Then the adjusted net worth is—**

Less than \$1

\$0

\$1 to \$100,000

40% of net worth of business/farm

\$100,001 to \$295,000

\$ 40,000 + 50% of net worth over \$100,000

\$295,001 to \$495,000

\$137,500 + 60% of net worth over \$295,000

\$495,001 or more

\$257,500 + 100% of net worth over \$495,000



**Table C5: Asset Protection Allowance**

Age of student as of 12/31/05*	Allowance for—		Age of student as of 12/31/05*	Allowance for—	
	Married Student	Unmarried Student		Married Student	Unmarried Student
25 or less..	0	0	45 .....	37,700	14,800
26 .....	2,200	900	46 .....	38,600	15,200
27 .....	4,400	1,800	47 .....	39,600	15,500
28 .....	6,700	2,700	48 .....	40,500	15,900
29 .....	8,900	3,500	49 .....	41,500	16,200
30 .....	11,100	4,400	50 .....	42,800	16,600
31 .....	13,300	5,300	51 .....	43,900	17,000
32 .....	15,500	6,200	52 .....	44,900	17,400
33 .....	17,800	7,100	53 .....	46,300	17,800
34 .....	20,000	8,000	54 .....	47,400	18,300
35 .....	22,200	8,900	55 .....	48,900	18,700
36 .....	24,400	9,800	56 .....	50,000	19,100
37 .....	26,600	10,600	57 .....	51,500	19,700
38 .....	28,900	11,500	58 .....	53,100	20,100
39 .....	31,100	12,400	59 .....	54,600	20,700
40 .....	33,300	13,300	60 .....	56,200	21,200
41 .....	34,100	13,600	61 .....	57,800	21,800
42 .....	35,000	13,900	62 .....	59,500	22,400
43 .....	35,900	14,200	63 .....	61,500	23,000
44 .....	36,700	14,500	64 .....	63,300	23,700
			65 or over ..	65,400	24,300

\*Determine student's age as of 12/31/05 from student's date of birth (FAFSA/SAR #9)

**Table C6: Contribution from AAI**

If student's AAI is—			The student's contribution from AAI is—		
Less than -\$3,409			-\$750		
-\$3,409	to	\$12,400	22% of AAI		
\$12,401	to	\$15,600	\$2,728	+	25% of AAI over \$12,400
\$15,601	to	\$18,700	\$3,528	+	29% of AAI over \$15,600
\$18,701	to	\$21,900	\$4,427	+	34% of AAI over \$18,700
\$21,901	to	\$25,000	\$5,515	+	40% of AAI over \$21,900
\$25,001	or more		\$6,755	+	47% of AAI over \$25,000







*Because students sometimes make errors on their application, colleges have had procedures for verifying the reported information. The regulations include this verification as part of the FSA program requirements. The Department only requires that a portion of the FAFSA filers at your school be verified, as selected by the Central Processing System. However, you also have the authority—and may be required—to verify additional students.*

Verification concerns applicants for most FSA programs, but it isn't required if the student is only receiving PLUS or unsubsidized Stafford loans, because these loans are not based on the EFC. However, a student can't avoid verification by choosing to borrow an unsubsidized loan instead of a subsidized loan. If he tries to do this, the school is to continue with verification.

## REQUIRED POLICIES

Your school must have written policies and procedures on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- a method of notifying students of award changes due to verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department.

Additionally, the school must give each applicant selected for verification a written statement explaining the following:

- **Documents required for verification.**
- **Student responsibilities**—including correction procedures, the deadlines for completing any actions required, and the consequences of missing the deadlines.
- **Notification methods**—how your school will notify a student if her award changes as a result of verification, and the time frame for such notification.

## Required Verification Items:

1. Household size
2. Number in college
3. Adjusted gross income (AGI)
4. U.S. taxes paid
5. Certain types of untaxed income and benefits:
  - ➔ Social Security benefits
  - ➔ Child support
  - ➔ IRA/Keogh deductions
  - ➔ Foreign income exclusion
  - ➔ Earned income credit
  - ➔ Interest on tax-free bonds

## Verification regulations

34 CFR 668, Subpart E  
Required policies—34 CFR 668.53

## Online FSA Verification Module

<http://ifap.ed.gov/qamodule/FSAVeriModule/FSAVerificationModule/page1.html>



### Quality Assurance Program

Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to FSA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including some verification requirements, though they are not exempt from resolving conflicting information. The QA Program provides QA schools with an alternative management approach to develop verification that fits their population. Currently, QA schools use a software tool to analyze the effectiveness of their institutional verification program. The ISIR Analysis Tool shows which application elements changed when verified and reveals the impact that those changes have on the EFC. This tool is available to all schools. See Volume 2: School Eligibility and Operations for more information.

### APPLICATIONS TO BE VERIFIED

Applications are selected for verification either by the CPS or by the school. Under certain circumstances, a CPS-selected application may be excluded from required verification (see “30% Verification Option” and “Verification Exclusions” below).

The output document shows if an application was selected by the CPS: the verification flag, which is in the *Financial Aid Office Use Only* section along with the match flag results, will have a value of “Y.” Also, next to the EFC will be an asterisk referring to a comment in the student section of page 1 that tells applicants they will be asked by their schools to provide copies of certain financial documents.

A school must verify any application information that it has reason to believe is incorrect [34 CFR 668.54(a)(3)] or for which it has conflicting information [668.16(f)]. Students with these applications are considered to be selected for verification by the school even though it may not be verifying the same data as for CPS-selected applications.

The school may also select additional applications for verification beyond those required, and in these cases the school decides which items to verify: it can forgo items that must be verified on CPS-selected applications and can select different items.

Regardless of whether the CPS or the school selected the application for verification, all other verification requirements, such as deadlines and allowable interim disbursement rules, apply equally to all students who are being verified.

If any school wants to learn more about its verification results, it can use the ISIR Analysis Tool, which provides a variety of reports and analyses using current Web technology. The reports it generates can help you determine which group of students discretionary verification or the CPS edits might be missing. They can also help you develop discretionary verification edits that focus on student changes that affect the EFC and Pell eligibility. See “Program Integrity” in the *School Eligibility and Operations* volume.

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### 30% Verification option

34 CFR 668.54(a)(2)

#### 30% Verification option

A school must verify all applications the CPS selects for verification, up to 30% of the school’s total number of federal aid applicants. The school may choose to verify more than 30%, and if the CPS selects less than that, the school isn’t required to reach 30%; it is not a quota. Applications a school selects and those with conflicting information don’t count toward the 30% level.

Schools have the flexibility to define “applicant.” For example, it can be anyone who applies to the school (i.e., they need not be enrolled), anyone who is enrolled, or, even more narrowly, anyone enrolled who is also eligible to receive an aid award. Whatever definition your school uses, the students you count toward the 30% limit must meet that definition.



### 30% Verification Examples

Bennet College has 1,000 applicants for federal student aid. The CPS selected 475 of the applications for verification. Bennet also selected 100 other applications based on its own criteria. To meet the 30% level, Bennet needs to verify 300 applications from the 475 the CPS selected; the 100 Bennet selected don't count toward the 30% requirement.

Brust Conservatory has 1,000 applicants for federal student aid, and the CPS selected 289 of the applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants.

Benoit Institute has 1,000 applicants for federal student aid, of which the CPS selected 300 for verification. Also, the school identified 40 additional applications as having conflicting information that Benoit must resolve. However, because the resolution of conflicting information is separate from verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more than 30% of the total applicants for federal student aid.

The verification tracking flag on the ISIR uses a four-digit number to prioritize applicants—the higher the number, the greater the potential for significant error. If you use the 30% option, this field will help you choose applicants for verification who have potentially made the most significant errors on their FAFSA.

### *Selection after disbursement*

A student's application might be selected for verification after corrections are submitted and after the student has already been paid based on the previous unselected CPS transaction. (There is a new change flag on the ISIR to call attention to this situation.) You must verify his application before making further disbursements. If the student does not complete verification or if verification does not justify the aid already disbursed, then he is responsible for repaying all aid for which he is not eligible.

### *Verification exclusions*

A selected application may be exempt from some or all of the verification requirements due to unusual circumstances. Except in the case of the student's death, however, none of these exemptions excuse the school from the requirement to resolve conflicting information.

➔ ***Incarceration.*** A selected application does not have to be verified if the student is in jail or prison at the time of verification.

➔ ***Recent immigrant.*** A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2005 or 2006.

➔ ***Spouse unavailable.*** A school isn't required to verify spousal information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.

### **Example: selection after disbursement**

Owen is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Owen submits an address change on his SAR. That transaction is selected for verification. The aid administrator at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring, but Owen doesn't turn in the documents. Owen doesn't have to repay the aid he got in the fall, but Guerrero cancels his aid package for the spring. If Owen does turn in the documents and complete verification before the deadline, Guerrero can give him the aid for which he is eligible in the spring.



### Verification exceptions

In addition to unsubsidized Stafford Loans and PLUS Loans, verification is not required—

- for Stafford Loans (subsidized or unsubsidized) received for study at eligible foreign schools.
- for the Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program), unless the school is certain that a student's state grant contains federal funds.
- for the Robert C. Byrd Honors Scholarship Program.

Also note that schools participating in the Quality Assurance Program can develop verification procedures different than those specified in the FSA regulations.

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### Verification exclusions

34 CFR 668.54(b)

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### Immigrant example

Hector arrives in the United States in February 2005 and begins attending Guerrero University in September 2005. His 2005–2006 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2005 calendar year.

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### Spouse unavailable example

Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

- The spouse is residing in a country other than the United States and can't be contacted by normal means.
- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

You should document the basis for the exclusion in the student's file. This exclusion doesn't affect any other part of required verification; the selected application must still be verified according to all other requirements.

➔ **Parents unavailable.** You don't have to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated. (If both parents are dead, the student is an orphan and thus is an independent student. If the parents die after the student has applied, the student must update his or her dependency status, as discussed in chapter 5.)
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

➔ **Death of the student.** If you make an interim disbursement during verification and the student dies before it is completed, you don't have to continue verification to justify the first disbursement. You can't make any additional disbursements, except for FWS funds already earned, to any of the student's beneficiaries. You cannot originate a Direct loan, certify a FFEL, or deliver proceeds from either one for the student's beneficiaries. For more information see Chapter 2 of Volume 5.

➔ **Applicant verified by another school.** You don't have to verify the selected application of a student who completed verification for the current award year at another school before transferring. However, to document a student's eligibility for this exclusion, you must get a letter from the school that completed the verification. The letter must include:

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**
- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 89).



➔ ***Pacific Island resident.*** You don't have to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands, or
- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

To qualify for this exclusion, a dependent student's parents must also meet the same criteria. As documentation, you should note the permanent mailing address in the student's file.

➔ ***Not an aid recipient.*** You don't have to verify a student who won't receive FSA for reasons other than his failure to complete verification. This category includes students ineligible for aid from the FSA programs and those who withdraw without receiving aid.

## REQUIRED VERIFICATION ITEMS

If the CPS selects an application for verification, you must verify five major data elements:

- household size,
- number enrolled in college,
- adjusted gross income (AGI),
- U.S. income tax paid, and
- certain untaxed income and benefits.

In addition to verifying these required items for CPS-selected students, you can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

### ***General documentation requirements and the verification worksheets***

The following sections describe the documentation that a student is required to provide for each data item. To help you collect most of the necessary documentation, this chapter includes the 2005–2006 verification worksheets developed by the Department. You may reproduce as many as you need, and master copies are also available through EDEExpress and the IFAP website at **[www.ifap.ed.gov](http://www.ifap.ed.gov)**. When a student completes a verification worksheet and attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete verification.



## Required verification items

34 CFR 668.56(a)

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### Timing of signature

Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification, during the applicable award year. Signatures can't be collected after the verification deadline for that award year.

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### HEROES Act modifications

The Higher Education Relief Opportunities for Students (HEROES) Act provides for the modification and waiving of some statutory and regulatory provisions related to students who receive financial aid and who are on active duty during a war or other military operation or who reside or are employed in a declared disaster area. These adjustments apply to return of funds and signature requirements for verification and application, among other things. The waivers and modifications expire on September 30, 2005. For a complete description of them and a complete list of the eligible students, see pp. 69312–69318 of the Federal Register dated December 12, 2003.

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### Household size documentation and exceptions

Student assistance general provisions  
34 CFR 668.57(b)  
34 CFR 668.56(a)(3), (b), (c)

However, you're not required to use the verification worksheets. Your school may use its own worksheet or none at all. You may require other documentation in addition to or instead of a completed verification worksheet. The chart on the next page shows other forms of acceptable documentation for each required verification item.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You should remind your students that they must submit the completed worksheet and copies of the relevant income tax returns or alternative documents to your financial aid office, not to the Department of Education.

When you receive the student's submission, you should make sure that all required worksheet sections are completed and appropriately signed and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as photocopies, faxes, digital images) of worksheets, tax returns, or other documents are acceptable. Unless specifically noted in this chapter, a signature on a copy is as valid as an original signature (i.e., a handwritten or "wet" signature). After checking the documentation against the student's application data, you may either disburse the student's award or make the necessary corrections and updates. (See "After documentation is complete," p. 88.)

### *Household size*

The law states who counts in the household size; see steps 4 and 5 in chapter 2. If the student completed the Department's verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and, for dependent students, at least one of the parents) listing the names of the household members, their ages, and their relationship to the student.

You don't have to verify household size if any of the following apply:





- it's the same as reported and verified in the previous award year.
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- for a dependent student, the household size reported for married parents is 3 (or 2, if the parent is single, divorced, separated, or widowed).
- the household size reported for a married independent student is 2 (or 1, if the student is single, divorced, separated, or widowed).

### *Number enrolled in college*

If the student completes the Department's verification worksheet, no further documentation for this item is required. Instead of the



## Acceptable Documentation

	<i>Verification Worksheet &amp; Tax Return(s)</i>	<i>Other Documentation in lieu of Worksheet or Tax Return (see the text for details)</i>
<i>Household Size</i>		Signed statement
<i>Number Enrolled</i>		Signed statement or institutional certification
<i>AGI &amp; Taxes Paid</i>		IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement
<i>Untaxed Income &amp; Benefits</i>		Signed statement or official agency documentation

worksheet, you may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement can be combined with the statement verifying household size and should include the names and ages of those enrolled and the names of the schools they plan to attend. If you have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If other students in the family haven't enrolled yet, documentation from the other schools may not be available.)

You don't have to verify the number enrolled in college if any of the following conditions apply:

- the reported number enrolled is one (the student only).
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- the family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school's own records.

### ***Adjusted gross income (AGI) and U.S. income tax paid***

You can usually verify AGI and U.S. income tax paid by getting a copy of the signed U.S. income tax return. The tax documents needed for verification may vary depending on the filing method—electronic, over the telephone (through TeleFile), or traditional paper. All documentation must contain the required signatures (or preparer's stamp or other official validation) and must contain all data

### **Number in college—documenta- tion and exceptions**

Student assistance general provisions  
34 CFR 668.57(c)  
34 CFR 668.56(a)(4), (b), (d)



## Tax documents: special situations and alternatives

There are certain situations, such as when the student filed taxes electronically or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

### Electronic filing (e-file)

The IRS *e-file* program comprises two electronic filing methods. The taxfiler can go to an e-file provider who will send the return to the IRS, or he can use taxfiling software on a home computer for submission to the IRS. The filer should always receive a paper copy of the return in some format. Software used on a home computer may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ form that contains the information that was filed electronically. The *e-file* provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification as long as they are signed by at least one of the taxfilers. (When an electronic tax return is filed, the filer also submits IRS Form 8453. Form 8453 doesn't have enough information for verification.)

Returns in the e-file provider's format might not contain every line item, showing instead only the data the taxfiler provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means no taxable interest income was reported.

### TeleFile

TeleFile allows 1040EZ filers to file a tax return over the phone. Filers complete a TeleFile Tax Record, call an IRS number, and enter the information over the telephone. The TeleFile Tax Record is acceptable documentation for verification purposes, provided it contains the filer's 10-digit IRS confirmation number in Line N and is signed by the filer. (There is no signature line—have the filer sign at the bottom.)

### Non-filers

An AGI figure won't be available for someone who isn't required to file a tax return. A non-filer would instead report on the FAFSA income earned from work, which includes any income reported on the individual's W-2 forms *plus* any other earnings from work not reported on those forms. (Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.)

A properly completed federal verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each non-filer a signed statement certifying his or her non-filer status and listing the sources and amounts of income. The school can also accept copies of the W-2 forms.

Financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. If someone whose data were required on the FAFSA submits a signed statement claiming non-filer status and you have reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more on conflicting information, see chapter 5.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the claim to nonfiler status. **Conflicting information must be resolved before you can disburse federal student aid.**

### Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax returns should have been filed and must be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school may accept as alternative documentation copies of the W-2 forms, and, as proof that the IRS has granted a filing extension, either a copy of IRS Form 4868—*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* (automatically grants the



taxpayer a four-month extension beyond the April 15 deadline) or a copy of the IRS approval of an extension beyond the automatic four-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When you receive the completed tax returns, you may use them to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the documentation deadline is ineligible for FSA funds and is required to repay any aid disbursed. Regardless of whether the student repays the aid, your school is liable for the interim disbursement (see Interim Disbursements on p. 88).

### Fiscal year tax returns

For a fiscal year return, as opposed to one for the calendar year, the student should report the AGI and U.S. income tax paid from the return that includes the greater number of months in the base year (see chapter 2 for an example). Accordingly, you should use the tax return from that fiscal year for verification purposes.

### Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

### Foreign income

As noted in “Step 2” in chapter 2, information from non-IRS tax returns would be reported on the FAFSA, with the value of the foreign income and taxes reported in U.S. dollars, using the exchange rate at the time of application. For verification purposes, these returns would be considered equivalent to an IRS Form 1040. If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

### If a tax return isn't available

If a copy of the tax return is not available, the student must instead submit a copy of any IRS form that lists tax information and provides the information needed for verification. The form **must** be signed by the student unless the IRS sent the form directly to the school.

A common form is the tax transcript. A student can order one by calling the IRS at 1-800-829-1040 and following the directions below or by completing and mailing Form 4506, *Request for Copy or Transcript of Tax Form*. If the transcript does not have as much financial information as the tax return, the student may have to provide additional documents to complete verification.

If the IRS can't provide a copy of the return or any form with tax account information, you can accept a copy of the W-2. If a filer is self-employed or if a W-2 is otherwise unavailable, you can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

### Obtaining a tax transcript or a copy of a return

A person may no longer request a transcript or a copy of a return in an IRS field office. Instead, if a person wants a copy of a return, she must complete and mail a Form 4506; if she wants a transcript, she can either submit a Form 4506 or she can call 1-800-829-1040 and use the automated system to request one. The steps in the automated system are generally: choose the option for “personal tax account,” enter the SSN or EIN, choose “transcripts,” enter the numbers of one's street address, and enter the year of the return requested.

Citations: 34 CFR 668.57(a)(4)(i)  
 34 CFR 668.57(a)(2)  
 34 CFR 668.57(a)(4)(ii), (a)(5)



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**AGI and income  
tax documentation**

34 CFR 668.57(a)

necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

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**FAFSA tax return questions**

For students, the tax return questions are 32-34 on the FAFSA. For parents, the tax return questions are 70-72.

To verify AGI and taxes paid, you must first identify everyone whose financial data was reported on the FAFSA and which tax returns, if any, they filed. You must check the tax returns for anyone whose financial data were reported on the FAFSA: the student and his spouse or parents, if applicable. They reported on the FAFSA either the tax return they filed or that they were not required to file a return. The type of form reported on the FAFSA should match what the student and parents actually filed.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the student's tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see "Using a joint return to figure individual AGI and taxes paid," p. 86). If the figures don't match, a correction may be needed, as discussed later in this chapter. For more information on how specific types and special categories of income should be reported on the FAFSA, see chapter 2.

The line item chart below shows the tax form line items for the most commonly reported items. This chart is a reference only; it is not an inclusive list of all the items the school must check on a tax return.

For verification purposes, you can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. You can also accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature.

Instead of a return the filer has signed, you may accept a paper return on which the tax preparer has stamped, typed, signed, or printed her name (not the name of her company) and her SSN, EIN (Employer Identification Number), or PTIN (Preparer Tax Identification Number). You may also accept a copy of an IRS form with tax account information that the IRS mailed directly to your school (otherwise at least one of the filers must sign the form). Documentation from electronic returns must be signed by the filer, as explained in the following section. In some cases you can waive the requirement for spouse information and signatures (see "Verification exclusions," p. 77).

***Untaxed income and benefits***

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to six specific types of untaxed income and benefits:



- Social Security benefits,
- child support,
- IRA/Keogh deductions,
- foreign income exclusion,
- earned income credit, and
- interest on tax-free bonds.

Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents. Non-filers should submit a signed statement confirming that they did not file a tax return and listing the amount and specific sources of untaxed income and benefits by name.

In addition to these types of untaxed income and benefits, you must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 2 discusses the untaxed income and benefits that must be reported on the FAFSA.

You're not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis of a financial need assessment. Further, "in-kind" income (see chapter 2) is not reported on the FAFSA and does not have to be verified.

Line Items			
	1040	1040A	1040EZ
<b>AGI</b>	36	21	4
<b>Income Tax Paid</b>	56	36	10
<b>Deductible IRA/SEP</b>	25 plus 32	17	
<b>Earned Income Credit</b>	65a	41a	8a
<b>Tax-Exempt Interest Income</b>	8b	8b	
<b>Untaxed Portions of IRAs and Pensions (excludes rollovers)</b>	15a minus 15b and 16a minus 16b	11a minus 11b and 12a minus 12b	



## Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary for verification purposes to determine the individual's income and taxes paid using the joint return and the relevant IRS W-2 forms. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Add the income amounts from the individual's W-2 forms to any other income that can be extracted from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer certifying that the data from the joint return were accurately assessed is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

- **Tax table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)
- **Proportional distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage

### Example 1: Calculating individual AGI from joint return example

Eddy's application is selected for verification. He and his wife filed a joint return for 2004 and have since separated. The AGI on Eddy's FAFSA matches the AGI of \$38,000 on the 2004 tax return, which means it's wrong because it includes his wife's income.

Eddy's W-2 shows that his income for 2004 was \$14,900, and the tax return shows \$200 in interest. Because it was interest on a joint savings account, the aid administrator adds \$100 of it to Eddy's income and submits \$15,000 as the corrected income via FAA Access.

### Example 2: Calculating individual taxes paid from a joint return

The aid administrator determines that Eddy's part of the \$38,000 AGI he and his wife reported is \$15,000. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children and will claim them as her dependents when she files her tax return for 2005. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling \$6,100. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is \$7,000 (instead of the \$9,500 for married filers). Eddy's income of \$15,000 minus the \$6,100 for exemptions and the \$7,000 standard deduction results in \$1,900 in taxable income.

The aid administrator uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of \$1,900, the amount of tax paid from the tax schedule would be \$191.

To use the proportional distribution method instead, the aid administrator figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (15,000 divided by 38,000 is .3947). The aid administrator then multiplies the income tax paid as reported on the tax return (\$1,323 for this example) by this percentage. Therefore, Eddy's income tax paid would be \$516 (.39 x \$1,323).



**✓ Verifying untaxed Social Security benefits**

You're not required to verify Social Security benefits **unless** you have reason to believe that benefits were not reported or were reported incorrectly. If you believe verification is necessary, you can accept the following:

- documentation from the Social Security Administration showing the total amount of benefits received by the student, the student's spouse, or a dependent student's parents, or
- a statement signed by the student (and spouse or parent) certifying that the amount of Social Security benefits reported on the application is correct.

**✓ Verifying child support received**

You must verify child support if the student, student's spouse, or student's parents report receiving it, or if you have reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year.

A completed verification worksheet is sufficient to verify child support received. If you don't use the verification worksheet, you must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If you have reason to doubt the statement provided, you should request at least one of the following items:

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

**✓ Verifying deductions for IRA and Keogh plans**

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 25 and 32 of IRS Form 1040 or line 17 of IRS Form 1040A.

**✓ Verifying interest on tax-free bonds**

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

**✓ Verifying foreign income excluded from U.S. taxation**

Excluded foreign income can be verified by using IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that this consists of both the income exclusion and the housing exclusion.

**Tip for verifying Social Security benefits**

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI. Lastly, if you chose to collect a Social Security statement and it shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

34 CFR 668.57(d)(2)

**Child support documentation**

34 CFR 668.57(d)(3)

**Untaxed income and benefits documentation**

34 CFR 668.57(d)



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### Disbursing unsubsidized loans without verification

As already mentioned, verification isn't required for unsubsidized loans. Therefore, schools can originate, certify, and disburse unsubsidized loans regardless of a student's verification status.

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### Interim disbursements

34 CFR 668.58

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### Pell, Perkins, FSEOG interim disbursement example

Steven's application is selected for verification. He's attending Brust Conservatory, which chooses to make interim disbursements. Steven's eligible for a Pell, and Brust also awards him a Perkins Loan. He isn't eligible for an FSEOG. Steven has already made some corrections because Brust discovered errors in his application, but he hasn't submitted all the verification documents yet. Though the school can make an interim disbursement before Steven turns in all his verification paperwork, the aid office doesn't want to pay him until it receives his corrected output document. Brust will wait until Steven completes verification before making any disbursements.

### ✓ **Verifying earned income credit (EIC)**

The EIC must be reported on the FAFSA and verified, which can be done using line 65a of the 1040, line 41a of the 1040A, or line 8a of the 1040EZ.

## COMPLETING THE PROCESS

Unless receiving only an unsubsidized or PLUS loan, a student selected for verification must complete it, and you have the authority to withhold disbursement of any FSA funds until she does. Adopting this policy substantially reduces the incidence of overpayments. You can, however, make an interim disbursement before verification is complete.

### *Interim disbursements*

You can make an interim disbursement before verification is complete **if you have no reason to believe the application information is inaccurate**. The limitations for each program are given below. Your school is liable for an interim disbursement if verification shows the student received an overpayment or if he fails to complete verification.

- **Pell Grant, Perkins, and FSEOG.** You can make one disbursement from each of these programs for the student's first payment period. If you make an interim Pell disbursement, you report the payment with a "W" verification status code. See "Verification status codes" later in this chapter.
- **Federal Work-Study.** You can employ a student under FWS for up to 60 *consecutive* days after he enrolls (or in summer employment for up to 60 days). After 60 days, if verification has not been completed, you can't continue to employ the student under FWS. If you later discover that the student has been overawarded, you should attempt to adjust the student's other aid. Otherwise, you must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See *Volume 6: Campus-Based Programs*.)
- **Stafford Loans.** You can certify a FFEL Stafford loan application or originate a Direct Stafford loan for a student who hasn't completed verification, but you can't disburse the loan. See *Volume 4: Processing Aid and Managing FSA Funds* for how to handle loan disbursements and for limits on how long your school can hold loan money before disbursing it or returning it to the lender.

### *After documentation is complete*

When you've obtained all necessary verification documents from the student, you should compare that documentation to the information originally reported on the application. If the verification process shows that all the student's information is correct, and there are no outstanding issues or conflicting information, you may award and disburse aid for which the student is eligible.



If verification reveals errors or inconsistencies, the student may have to make corrections or update information (see Chapter 5).

### **Verification tolerance**

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility, so the regulations provide a tolerance for verification changes.

This tolerance is \$400: if the total difference between the incorrect and correct values for certain items is more than \$400, the information must be corrected. To calculate the difference, first add the original (incorrect) AGI and untaxed income amounts. From that sum subtract the original U.S. income tax paid to get the uncorrected total. Do the same for the correct values: add the correct AGI and untaxed income and subtract the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is \$400 or less, the errors are within tolerance; you may award the student aid without submitting a correction or recalculating the EFC. Using the tolerance is optional—you can always have the student submit corrections for reprocessing.

Note that there is no tolerance for errors in nondollar items. If the original application has an error in any nondollar item, such as household size, the student or school must correct it.

### **Late disbursements and failure to submit documentation**

Generally a student ceases to be eligible for aid once he has finished the term and is no longer enrolled. However, he may submit verification documentation and receive a late disbursement after that time if the Department processed a SAR or ISIR with an official EFC while he was still enrolled. Also, if there was a change in his EFC due to verification completed after he was enrolled, any Pell grant awarded would be based on the higher EFC. For information regarding *post-withdrawal* disbursements, see Volume 5 of the Handbook.

A Pell applicant selected for verification must complete the process within deadlines published in the *Federal Register*. As of this writing, the notice for 2005-2006 has not been published, but the deadlines for FSA programs, including Pell, are expected to be September 23, 2006 or 120 days after the last day of the student's enrollment, whichever is earlier.

For Pell grants, verification is complete when the student has corrected any errors or shown that the information is correct. In addition to all verifying documentation, your school must also have on file his valid ISIR or SAR by the verification deadline—if not, the student forfeits Pell for the award year, and your school must repay funds already disbursed.

Campus-Based and Stafford loan applicants must complete verification by the final deadline for all FSA programs published in the *Federal Register* or by any earlier deadline established by your aid

### **Items that must be updated**

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see chapter 5).

### **Tolerance example**

Emma originally reported on her FAFSA an AGI of \$2,500, \$500 in untaxed income, and \$250 U.S. income tax paid. Verification shows that her AGI was actually \$2,800, and she paid \$281 in U.S. income tax.

Original: \$2,500 (AGI) + \$500 (untaxed income) – \$250 (taxes paid) = \$2,750

Corrected: \$2,800 (AGI) + \$500 (untaxed income) – \$281 (taxes paid) = \$3,019

Net Difference: \$269 (\$3,019 – \$2,750)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported without requiring corrections or recalculation of the EFC.

### **Failure to submit documentation**

Pell Grants—34 CFR 668.60(c)  
C-B/Stafford—34 CFR 668.60(b)

### **Late disbursements**

34 CFR 668.164(g)



office. The student has completed verification when he has submitted all requested documentation to the school. You must also have on file an output document with an official EFC that shows the student's application data were processed through the CPS at least once while the student was enrolled.

For the Campus-Based and Stafford loan programs, if a student fails to provide the required documentation by the deadline, do not:

- disburse additional FSEOG or Federal Perkins loan funds to the student (funds already disbursed must be repaid by your school),
- continue the student's employment in an FWS job,
- certify a FFEL Stafford loan application or originate a Direct Stafford loan for the student, or
- disburse Stafford loan funds to the student.

### ***Verification status codes***

When you disburse a Pell grant, you must report through Common Origination and Disbursement (COD) the student's verification status even if he wasn't selected for verification.

V - You have verified the student. This includes students selected by the CPS and those your school chose to verify based on its own criteria.

W - The student was selected for verification by the CPS, and your school has chosen to pay a first disbursement of Pell without documentation. Note that this code must be updated.

S - The CPS selected the student for verification, but you did not verify him because you already reached the 30% verification threshold or because your school participates in the Quality Assurance Program and the student's application did not meet your school's verification criteria.

Blank - Report a blank if you have not performed verification because neither the CPS nor your school selected the student.





# 2005-2006 Verification Worksheet

## Federal Student Aid Programs

Dependent

FORM APPROVED  
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 2004 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

### What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet—you and at least one parent.
4. Submit the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You may need to make corrections electronically or by using your SAR.

*Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).*

### A. Student Information

Last name	First name	M.I.	Social Security Number
Address (include apt. no.)			Date of birth
City	State	ZIP code	Phone number (include area code)

### B. Family Information

List the people in your parents' household, include:

- yourself and your parent(s) (including stepparent) even if you don't live with your parents, and
- your parents' other children, even if they don't live with your parent(s), if (a) your parents will provide more than half of their support from July 1, 2005 through June 30, 2006, or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 2005 through June 30, 2006.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half time between July 1, 2005 and June 30, 2006, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Missy Jones (example)	18	Sister	Central University
		Self	



**C. Student's Tax Forms and Income Information (all applicants)****Dependent**

1. Check only one box below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- ☐ Check and attach signed tax return.
- ☐ Check and complete: signed tax return will be submitted to the school by \_\_\_\_\_ (date).
- ☐ Check here if you will not file and are not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A&B of the Free Application for Federal Student Aid.)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If you did not file and are not required to file a 2004 Federal income tax return, list below your employer(s) and any income received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

**D. Parent(s)' Tax Forms and Income Information**

1. Check only one box below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If your parent(s) did not keep a copy of their tax return, request a copy from the tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- ☐ Check and attach signed tax return(s).
- ☐ Check and complete: signed tax return(s) will be submitted to the school by \_\_\_\_\_ (date).
- ☐ Check here if your parent(s) will not file and are not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A & B of the Free Application for Federal Student Aid.)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If your parent(s) did not file and are not required to file a 2004 Federal income tax return, list below your parent(s)' employer(s) and any income they received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

**E. Sign this Worksheet**

By signing this worksheet, we certify that all the information reported on it is complete and correct. At least one parent must sign.

**WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.**

\_\_\_\_\_  
Student Date

\_\_\_\_\_  
Parent Date

**Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Make sure that tax forms are signed.**





# 2005-2006 Verification Worksheet

## Federal Student Aid Programs

FORM APPROVED  
OMB NO. 1845-0041

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 2004 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you or your school may need to make corrections electronically or by using your Student Aid Report (SAR).

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

### What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet.
4. Submit the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on this worksheet and any supporting documents with the information you submitted on your application. You may need to make corrections electronically or by using your SAR. *Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).*

### A. Student Information

Last name	First name	M.I.	Social Security Number
Address (include apt. no.)			Date of birth
City	State	ZIP code	Phone number (include area code)

### B. Family Information

List the people in your household, include:

- yourself, and your spouse if you have one, and
- your children, if you will provide more than half of their support from July 1, 2005 through June 30, 2006, and
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 2005 through June 30, 2006.

Write the names of all household members in the space(s) below. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half time between July 1, 2005 and June 30, 2006, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones (example)	24	Wife	City University
		Self	



**C. Student's Tax Forms and Income Information (all applicants)****Independent**

1. Check only one of the boxes below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of your tax return, request a copy from your tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- ☐ Check and attach signed tax return.
- ☐ Check and complete: signed tax return will be submitted to the school by \_\_\_\_\_ (date).
- ☐ Check if you will not file and are not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid.)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If you did not file and are not required to file a 2004 Federal income tax return, list below your employer(s) and any income received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

**D. Spouse's Tax Forms and Income Information (if student is married)**

1. Check only one box below. Tax returns include the 2004 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request a copy from the tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

- ☐ Check if you and your spouse did or will file a joint return.
- ☐ Check and attach spouse's signed tax return if your spouse filed a separate return.
- ☐ Check and complete: signed spouse's tax return will be submitted to the school by \_\_\_\_\_ (date).
- ☐ Check if your spouse will not file and is not required to file a 2004 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid.)

Sources of Untaxed Income	2004 Amount	Sources of Untaxed Income	2004 Amount
a. Child Support	\$	d.	\$
b. Social Security (non-taxed)	\$	e.	\$
c. Welfare (including TANF)	\$	f.	\$

3. If your spouse did not file and is not required to file a 2004 Federal income tax return, list below your spouse's employer(s) and any income received in 2004 (use the W-2 form or other earnings statements if available).

Sources	2004 Amount
	\$
	\$
	\$

**E. Sign this Worksheet**

By signing this worksheet, I (we) certify that all the information reported on it is complete and correct. If married, spouse's signature is optional.

**WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.**

\_\_\_\_\_  
Student Date

\_\_\_\_\_  
Spouse Date

**Do not mail this worksheet to the Department of Education. Submit this worksheet to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.**



# Corrections, Updates, and Adjustments

*There are situations where the original application information may need to be changed: when errors need to be corrected; when dependency status, household size, or number in college must be updated; and when an aid administrator makes an adjustment based on professional judgment. This chapter discusses how to make these changes to application information.*

Students and schools can **correct** items that were incorrectly reported on the original FAFSA submission, but because the FAFSA is considered to be a “snapshot” of the family’s financial situation as of the date the application was signed, only a few answers from the FAFSA can be **updated** to reflect changes after the FAFSA was signed. Also, as an aid administrator you have the discretion to use your professional judgment to **adjust** the student’s reported information to account for special circumstances.

## CORRECTING ERRORS

Errors can occur if the student submits the wrong information or if the information she provided was not scanned or entered correctly. In general, your school must have correct data before it can pay the student, which in some cases means that you or the student must submit corrections for reprocessing. However, there are other cases where you can pay the student without waiting for corrections to be reprocessed—for instance, if the aid amount doesn’t change or, for the Campus-Based and Stafford/PLUS programs, if you base the award on your recalculation of the EFC. For students selected for verification, there are additional situations where corrections aren’t required (see chapter 4 of this publication).

Even if the EFC or award amount doesn’t appear to change, you must require the student to submit corrections to the CPS (or otherwise resolve the discrepancy) if the Social Security number is wrong or if there were problems with other application questions that are subject to data matches, such as the citizenship questions.

### *Options if error doesn’t affect eligibility*

If there would be no change to the **Pell grant**, the student doesn’t have to submit corrections for reprocessing unless something such as a data match item must be changed. When submitting payment information in such a case, you must be sure to use the verified transaction (see Volume 3). The rule is similar for

## TYPES OF CHANGES

### Corrections

- ➔ Application errors

### Updates

- ➔ Changes to dependency status, household size, or number in college under certain conditions

### Professional judgment <sup>1</sup>

- ➔ Override dependency status
- ➔ Adjust data elements

<sup>1</sup>Aid administrators only

## Regulations on corrections and updating

Corrections for Pell Grants

34 CFR 690.14

Verification and updating, interim disbursements, options for payment, etc. 668.55, 668.58-.61



### Correction if misreported as graduate

Any student who reports on the FAFSA that she is a graduate student can't receive Pell funds. Therefore, a student who incorrectly reported that she is a graduate student must correct that information, even if there are no errors that affect the EFC.

### Examples—errors not affecting EFC

Stanislaw reported \$1,000 for cash, savings, and checking accounts, and also reported \$1,000 for the net worth of investments. He reported no other assets. He actually should have reported \$2,500 for the net worth of investments. However, because his asset protection allowance is \$4,700, making the correction won't change his EFC at all. Therefore, he can receive aid from any of the programs without submitting a correction, based on the data he originally reported.

Eric reported an AGI of \$20,000 but forgot to report untaxed income of \$120. Eric's EFC was 846. The FAA at Frisson College determines that making the correction would change Eric's EFC to 874. For an EFC of 846, the scheduled award is \$2,900, as it is for an EFC of 874, so the college can pay Eric's Pell without requiring him to make a correction. When Frisson submits the origination record for Eric, it uses the original EFC of 846. (The college will need to either use its recalculated EFC or submit a correction for aid from the campus-based, Direct Loan, or FFEL programs; see "Options if correction decreases eligibility.")

### Correction increases eligibility, Pell grants

34 CFR 668.59(b)(2)(ii)(A)

### Verification completed within 120-day period for Pell

34 CFR 668.60(c)(1)

the **Campus-Based and Stafford loan** programs—you can award aid based on the original data if your recalculation shows the correction would not change the student's EFC or award amount. Of course, for any program you can still require the student to make and submit the corrections for reprocessing.

### Options if correction increases eligibility

**For Pell Grants**, if the scheduled award would increase and if the student completes verification and submits no corrections, you may use the original EFC and grant amount. Otherwise, you must pay the student the increased amount by submitting the corrections to the CPS for reprocessing. If the student was selected for verification, you can make a first payment based on the original EFC and adjust the second payment upon receipt of the reprocessed ISIR/SAR, or you can wait until you receive the reprocessed EFC before you pay the student. If the student wasn't selected for verification, you must wait until you receive the reprocessed EFC before making a payment.

There's an important limitation when a student completes verification while no longer enrolled but within the subsequent 120-day period allowed for verification. In such cases you **must always use the higher EFC**, even if it was the original and incorrect EFC (refer to the regulation cited in the margin).

**For the Campus-Based and Stafford loan programs**, if your recalculation shows that the student's eligibility will increase, you can either pay the student based on your recalculation or you or the student can submit a correction and use the new EFC from the CPS. Remember that your school will be liable for any overpayment if your recalculation is incorrect.

### Options if correction decreases eligibility

If the student would be eligible for less aid based on the correct information, you can't use the incorrect EFC to award FSA aid.

**For Pell Grants**, if the scheduled award would decrease, the data must be corrected and submitted to the CPS. You can't make any Pell payments to the student until you receive the new output document.

**For the Campus-Based and Stafford loan programs**, when your recalculation of the EFC shows that the corrections would decrease the student's aid, you can either pay the student based on your recalculation or require the student to submit a correction and use the new EFC from the CPS.

## UPDATING

Generally, information that's correct as of the date the application was filed can't be changed. The student can't update income or assets that changed after she submitted her FAFSA. For example, if her family sold some stock after she filed a FAFSA and spent the money on a nonreported asset such as a car, she can't update her information to show a change in the family's assets. However, three items—



household size, number in college, and dependency status—must be updated in certain circumstances.

### ***Dependency status***

A student must update his dependency status any time during the award year unless it changed because his marital status changed. This update is required whether or not he was selected for verification. For the Pell Grant Program, the updated information must be submitted to the CPS for reprocessing. For the Campus-Based and Stafford/PLUS loan programs, you can recalculate the student's EFC based on the updated dependency status and use that recalculated EFC. Remember that your school will be liable for any overpayment due to recalculation errors.

Once you've originated or certified a Stafford loan, the DL origination record or FFEL certification record can't be changed to reflect a change in dependency status. However, you can use the updated status and recalculated EFC to originate or certify additional loans if the student qualifies.

### ***Household size and number in college***

Unlike dependency status, household size or number in college **cannot** be updated unless the student is selected for verification. If he is selected, these items **must** be updated to be correct at the time of verification unless they changed due to a change in the student's marital status, in which case updating is not permitted.

**For Pell Grants**, the student doesn't have to submit updated information for reprocessing if the scheduled award will increase or remain the same; you can disburse Pell funds using the original EFC. But in order for the student to get the increased grant amount, the updated information must be submitted to the processor. You can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed output document, or you can wait until you receive the new EFC before paying the student. If the award will decrease, the updated information must be submitted to the processor. You can't make any payments until you have the new output document with the updated information.

**For the Campus-Based and Stafford/PLUS programs**, you can require the student to submit the updated information for the CPS to recalculate the EFC, or you can recalculate the student's EFC yourself. Remember that your school will be liable for any overpayment due to recalculation errors.

### ***Effect on previous disbursements***

If you paid a student based on information that is updated later, you must use the revised EFC to determine the correct award and adjust future disbursements or require a repayment by the student if necessary.

### **Example: correction increases eligibility**

Chris's EFC is 616. He correctly reported his household size of three but incorrectly reported the number in college as one. The FAA at Benoit Institute determines that correcting the number in college to two would change Chris's EFC to 534. This would increase his Pell award by \$100. Benoit can disburse Pell to Chris on the lower scheduled award but not on the higher award unless he sends in a correction and receives a new output document. Benoit could use the recalculated EFC for awarding under the Campus-Based, Direct Loan, or FFEL programs without any corrections being submitted.

### **Example: correction decreases eligibility**

On the application, Chavo reported his \$6,000 in income as taxes paid instead of income earned from work. Making the correction will increase Chavo's EFC, so his eligibility will be reduced. Because Chavo will still qualify for a Pell, the FAA at Sarven Technical Institute sends the correction to the CPS for recalculation. Chavo can't receive any Pell payments until Sarven receives the corrected ISIR. However, Sarven could recalculate his EFC and disburse campus-based aid, Direct Loans, or FFELs to Chavo before it receives the corrected data from the CPS.

### **Parent remarriage after applying**

While the applicant does not update household size or number in college because of a change in his marital status, if he is a dependent student and his parent remarries between application and verification, he must update household size to include the new stepparent. However, the student would not count the new stepparent's income and assets. The school could use professional judgment to include the stepparent's income or to otherwise account for the change.

HEA Sec. 475(f)(3)

34 CFR 668.55(b)



## **Making corrections and updates**

### **Corrections on the Web**

[www.fafsa.ed.gov](http://www.fafsa.ed.gov)

### **FAA Access to CPS Online**

[www.fafsa.ed.gov/FAA/faa.htm](http://www.fafsa.ed.gov/FAA/faa.htm)  
by the school aid office

### **Student aid report**

paper corrections sent by mail

### **By phone**

Change schools listed or student address (DRN required)  
Federal Student Aid Information Center (FSAIC)  
1-800-4-FED-AID (1-800-433-3243)

## **HOW TO SUBMIT CORRECTIONS AND UPDATES**

Corrections and updates can be submitted by the student on the SAR or the Web or by the school with FAA Access to CPS Online.

### ***Using “Corrections on the Web” (COTW)***

Any student who has a PIN—regardless of how he applied—may correct any of his own data, except SSN, by using Corrections on the Web (at [www.fafsa.ed.gov](http://www.fafsa.ed.gov)). If dependent students need to change parental data, a parent must either sign electronically with her own PIN or print out and sign a signature page.

### ***Submitting changes via FAA Access to CPS Online***

Your school can submit corrections and updates electronically through FAA Access to CPS Online even if the original application wasn't submitted with that method. If your school isn't listed on the transaction you want to correct, the student will have to give you the DRN printed on the SAR or SAR Acknowledgement so that you can add your school in the next available institution field and then get electronic access to the resulting corrected transaction. If all six institution fields have been used, the student will have to tell you which of the original six should be replaced with your school's name and federal school code.

If you send a correction or update for a student using FAA Access, you must first have signed documentation from the student and parent. This can be signatures on Part 2 of the SAR, a signed copy of the correction or update, or a signed verification document. See Chapter 2 for more on signature requirements.

The CPS will process the change, send an ISIR to the school, and send the student a one-page SAR acknowledgement or, if the CPS has her e-mail address, an e-mail with a link to her SAR information on the Web.

### ***Using the student aid report (SAR) to make corrections***

Students who received a paper SAR may make corrections or updates on it, then sign and return it to the FAFSA processor at the address given at the end of the SAR (of course, students with PINs can instead use COTW). One parent must also sign if the student is dependent, unless the only corrections are to the institution or housing codes, the address, or telephone number.

If the student applied electronically through a school or received an e-mail link to SAR information on the Web but would like to make corrections with a paper SAR, she can have one mailed to her by calling the FSAIC at 1-800-433-3243 and providing her name, SSN, and date of birth.

### ***Adding schools and changing a student's address***

As with other changes, a student can add schools or change her address, e-mail address, or telephone number by submitting the changes through FAA Access (though, as noted before, if your school was not listed on the student's application, you will need the



student's DRN to add your school), through COTW, or on a paper SAR. But for the above items, the student can also update them over the phone by calling 1-800-4FED-AID and providing her DRN.

Also, a student can send a signed, written request to the FAFSA processor to add schools. The processor will replace **all of the current schools** listed on her application file with the schools listed in the letter. Therefore, when sending a written request, the student should list **all** of the schools to which information should be sent, up to a total of six, including any schools previously listed on the FAFSA or SAR that she still wants to receive information.

The FAFSA only has space for a student to list six schools that will receive the application data. If the student wants information sent to more than six schools, he can use any of the methods listed above to replace some or all of the original six schools with other schools. However, the CPS will send data only to six schools at a time for one student. For example, if the student originally listed six schools on the application and then used Corrections on the Web to replace two of the schools originally listed with two new schools, the two schools that were replaced would not receive an ISIR from this correction or any subsequent corrections.

## PROFESSIONAL JUDGMENT

An aid administrator may use professional judgment (PJ), on a case-by-case basis only, to alter the data elements used to calculate the EFC. The professional judgment alteration is valid only at the school exercising such judgment. You may submit an adjustment without a signature from the parent or student, and the adjustment must be done electronically, via FAA Access to CPS Online.

The reason for the adjustment must be documented in the student's file, and it must relate to the special circumstances that differentiate him—not to conditions that exist for a whole class of students. You can also use professional judgment to adjust the student's cost of attendance. You must resolve any inconsistent or conflicting information shown on the output document *before* making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department.

The statute states that nothing within it shall be construed as limiting the authority of aid administrators to make data adjustments for some situations. However, the most recent Reauthorization (1998) added some examples of special circumstances, such as elementary or secondary school tuition, medical or dental expenses not covered by insurance, unusually high child care costs, recent unemployment of a family member, or other changes in the family's income or assets. Use of professional judgment is neither limited to nor required for the situations mentioned.

Another situation where you might want to use professional judgment involves Roth IRAs. When someone converts a regular IRA

## Corrections by phone limited to processor errors

As we've discussed, a student with a DRN can change his address and school listings by calling the Federal Student Aid Information Center.

Most other corrections can't be made over the phone—they have to be done on the SAR or through COTW or FAA Access. There is only one exception, and that's when the information the student submitted on a paper FAFSA or SAR was not scanned or input correctly.

If a student contacts the FSAIC and a counselor can verify by viewing the image file of the document that an answer to an item was not correctly recorded by the FAFSA processor, the counselor can correct that error.

The correction will be transmitted to the CPS, a corrected ISIR will be available to the student's schools within 72 hours, and he will receive a corrected SAR in the mail within 10 days. The student doesn't have to sign for this correction because he has already signed the original paper document that has the correct information.



**Professional judgment**

Sec. 479A(a) IN GENERAL—Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical or dental expenses not covered by insurance, unusually high childcare costs, recent unemployment of a family member, the number of parents enrolled at least half time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreement under section 487, or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information.

into a Roth IRA by transferring funds, the amount converted has to be reported as taxable income on the tax return. So the income reported on the FAFSA will be higher than without the Roth conversion, even though the family doesn't actually have additional income or assets available. You can use professional judgment to reduce the income and taxes paid to the amount that would have been reported if there was no Roth conversion if you think the adjustment is warranted for a student. As with the specific special circumstances listed in the law, you're not required to make an adjustment in this situation.

The law doesn't allow you to modify either the formula or the tables used in the EFC calculation; you can only change the cost of attendance or the values of specific data elements used in the EFC calculation. In addition, you can't adjust data elements or the cost of attendance solely because you believe the tables and formula are not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances. For example, if a family member is ill, you might modify the AGI to allow for lower earnings in the coming year or might adjust assets to indicate that family savings will be spent on medical expenses.

Professional judgment can't be used to waive general student eligibility requirements or to circumvent the intent of the law or regulations. For instance, you cannot use professional judgment to change FSEOG selection criteria. Nor can you include post-enrollment activity expenses in the student's COA. (For example, professional licensing exam fees are not allowable costs.)

Occasionally aid administrators have made decisions contrary to the professional judgment provision's intent. These "unreasonable" judgments have included, for example, the reduction of EFCs based on recurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators must make "reasonable" decisions that support the intent of the provision. Your school is held accountable for all professional judgment decisions and for fully documenting each decision.

In making adjustments for unusual expenses, an aid administrator should keep in mind that an income protection allowance (IPA) is already included in the EFC calculation to account for modest living expenses. You should consider whether the expense is already taken into account through the income protection allowance before making an adjustment. It is reasonable to assume that approximately 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA"). See chapter 3 for tables listing income protection allowances.



If you use professional judgment to adjust a data element, you must use the resulting EFC consistently for all FSA funds awarded to that student. For example, if for awarding the student's Pell grant you adjust a data element that affects the EFC, that new EFC must also be used to determine the student's eligibility for aid from the Campus-Based and Stafford Loan programs.

## CONFLICTING INFORMATION

In addition to reviewing application and data match information provided by the CPS, a school must have an adequate internal system to identify conflicting information—regardless of the source and regardless of whether the student is selected for verification—such as information from the admissions office as to whether the student has a high school diploma or information from other offices regarding academic progress and enrollment status. The school is responsible for reconciling any conflicting information that it has with one exception: if the student dies during the award year, the school isn't required to resolve conflicting information.

If your school has conflicting information concerning a student's eligibility or you have any reason to believe a student's application information is incorrect, you **must** resolve the discrepancies before disbursing FSA funds. If you discover discrepancies *after* disbursing FSA funds, you must still reconcile the conflicting information and take appropriate action under the specific program requirements.

### Subsequent ISIRs

You are required to review all subsequent transactions for a student, even if you have already verified an earlier transaction. First determine if the EFC or any of the "C" flags have changed or if there are new comments or NSLDS information. Also check any updates or corrections. If the EFC has not changed and there are no changes in the "C" flags or NSLDS information, generally no action is required. If the EFC does change but it either doesn't affect the amount and type of aid received or the data elements that changed were already verified, no action is required. But if the EFC changes and the pertinent data elements were not verified, then you must investigate. Of course, any time a "C" flag changes or NSLDS data have been modified, you must resolve any conflicts.

### Discrepant tax data

We have already stated that financial aid administrators do not need to be tax experts, yet there are some issues that even a layperson with basic tax law information can evaluate. Because conflicting data often involve such information, FAAs must have a fundamental understanding of relevant tax issues that can considerably affect the need analysis. You are obligated to know: whether a person was required to file a tax return, what the correct filing status for a person should be, and that an individual cannot be claimed as an exemption by more than one person.

### Adjustment example

Kitty's mother had income earned from work of \$25,000 in 2003 but is no longer employed. After receiving documentation confirming this, the FAA at Bennet College decides to adjust the AGI reported for Kitty's parents to take into account their reduced income. The FAA also reduces the income earned from work for Kitty's mother to zero.

### IPA percentage example

In 2003 Allen had \$2,180 in medical expenses that weren't covered by insurance. He's married and has two children, and he's the only member of his household in college, so his IPA is \$21,070. Because Allen's expenses are less than the amount for medical expenses already included in the IPA (11% of \$21,070 is \$2,318), the aid administrator at Sarven Technical Institute does not make an adjustment to Allen's FAFSA information.

### Online review of PJ practices

<http://ifap.ed.gov/qadocs/FSAVeriModule/activity13.doc>



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### **Requirement to identify and resolve discrepant information**

34 CFR 668.16(f)

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### **Requirement to verify questionable data**

34 CFR 668.54(a)(3)

"If an institution has reason to believe that any information on an application used to calculate an EFC is inaccurate, it shall require the applicant to verify the information that it has reason to believe is inaccurate."

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### **IRS Publication 17**

The IRS's Publication 17 is a large document, but we have included the page numbers to which you might need to refer so that you will not be daunted by the length of the publication.

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### **Online review of conflicting information policies**

<http://ifap.ed.gov/qadocs/FSAVeriModule/activity7.doc>

For example, an FAA noticing that a dependent student's married parents have each filed as "head of household" (which offers a greater tax deduction than filing as single or married) must question whether that is the correct filing status. Publication 17 of the IRS, *Your Federal Income Tax*, describes on p. 25 the requirements that a person must meet to file as head of household: you must have paid more than half the cost of keeping up a home for the year; you must be unmarried or "considered unmarried" (the definition of the latter is given on the same page) on the last day of the year; finally, a "qualifying person" must have lived with you in the home more than half the year (though your dependent parent does not have to live with you). A table for determining who counts as a "qualifying person" is given on page 26, and other important notes are on pages 25 and 26 of Publication 17.

Publication 17 is a useful resource for aid administrators. You can view it on the Web at [www.irs.gov](http://www.irs.gov) or you can call the IRS at 1-800-829-3676 to order a copy. Other tax issues that it addresses: the filing requirements—i.e., who is required to file a return—are on pages 7 and 8; and instructions on which form a person should file are on pages 9–11.

### ***Resolution of conflicting information***

You may not disburse aid until you have resolved conflicting information, which you must do for any student as long as he is at your school; even if the conflict concerns a previous award year, you must still investigate it. You have resolved the matter when you have determined which data are correct, which might simply be confirming that an earlier determination was the right one. And, of course, you must document your findings in the student's file.

## **REFERRAL OF FRAUD CASES**

If you suspect that a student, employee, or other individual has misreported information or altered documentation to fraudulently obtain federal funds, you should report your suspicions and provide any evidence to the Office of Inspector General. See also Volume 2.

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### **OIG referrals**

34 CFR 668.16(g)



## OIG Address and Phone Numbers

<i>Regional Offices</i>	<i>Telephone No.</i>	<i>National Hotline</i>
Boston, MA	(617) 223-9301	Inspector General's Hotline Office of Inspector General U.S. Department of Education 400 Maryland Avenue, SW Washington, DC 20202-1510
New York, NY	(212) 264-4104	
Philadelphia, PA	(215) 656-6900	
Pittsburgh, PA	(412) 931-9292	
Atlanta, GA	(404) 562-6460	
Chicago, IL	(312) 353-7891	<b>1-800-MIS-USED</b> <a href="http://www.ed.gov/about/offices/list/oig/hotline.html">http://www.ed.gov/about/offices/list/oig/hotline.html</a>
Dallas, TX	(214) 880-3031	
Kansas City, MO	(816) 268-0530	
Long Beach, CA	(562) 980-4141	
San Juan, PR	(787) 766-6278	
Washington, DC	(202) 245-6911	



